



# **NAVAL POSTGRADUATE SCHOOL**

**MONTEREY, CALIFORNIA**

## **THESIS**

**FROM OIL WELLS TO INSTITUTION BUILDING: AN  
APPROACH FOR FAIR OIL DISTRIBUTION IN IRAQ**

by

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December 2007

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OIL DISTRIBUTION IN IRAQ**

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This thesis represents a case study of the current problems surrounding the distribution of oil revenues in Iraq. First, the main problems facing Iraq's oil economy are examined. Second, an assessment is made of the distribution system outlined in the Iraqi constitution. Third, based on this assessment, arguments are given as to the necessity of a new oil law. A critical area of discussion centers on the issue of federalism vs. a strong central government – which system best serves the needs of the country in a manner consistent with future stability. Based on this discussion, the thesis also examines the feasibility of a direct distribution system of oil revenues. Here the main issues center on the feasibility of alternative distribution systems and the opposition they may face. The thesis concludes by developing the framework for an ideal distribution system and proposes possible modifications of the Iraqi Constitution and new Iraqi Hydrocarbon/Oil Law. It also recommends eight steps to help achieve a solution.

The study draws on the sources of many scholars, related countries' officials, and the author's personal observations and thoughts gained while serving in and related to Iraq in various missions.

The purpose of the study is to assist in resolving many of the factions, which are currently causing tensions and violence in an area where multiple ethnic and sectarian groups are vying for a single strategic resource.

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I dedicate this study to the Turkish Armed Forces. The Turkish Armed Forces have always wished for peace all over the world, and have many martyrs for peace. As a member of this unique armed forces, I hope this study helps to bring stability and peace to the region and to the world.

The thoughts in this study are the author's own individual views and do not necessarily project the official views of Turkey and the Turkish Armed Forces.

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# **I. INTRODUCTION**

## **A. PURPOSE**

“A tsunami of violence is currently engulfing Iraq, characterized by a widespread lack of security and law and order. This is accompanied by a lack of efficiency in government organizations and a near absence of institutional performance or sound management both at the center and, especially, in the provinces.”<sup>1</sup> A comprehensive approach to the oil economy can solve this serious problematic issue. In particular, a healthy and robust oil distribution system can bring stability and welfare that should be above all other considerations for that country.

In this context, this thesis examines the current situation in Iraq. In particular, it assesses the potential use of fair oil policies to defuse the current ethnic tensions, violence, and political instability currently impeding development in that country. The role played by oil for the purpose of this study is to help to solve the problems that cause tensions and violence to play out in an area where multiple ethnic and sectarian groups are vying for a single strategic resource, oil, which is also important to external sources.

## **B. SIGNIFICANCE OF THE STUDY**

Questions about oil distribution are currently one of the most important issues facing Iraq, its neighboring countries and the United States. “Oil production and sales account for nearly 70 percent of Iraq’s Gross Domestic Product (GDP), and more than 95 percent of government revenues.”<sup>2</sup> In this

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<sup>1</sup> Tariq Shafiq, “Iraq’s Draft Petroleum Law: An Independent Perspective,” *Middle East Economic Survey* XLIX.8, <http://www.mees.com/postedarticles/oped/v50n08-5OD01.htm> (Accessed February 19, 2007).

<sup>2</sup> James A. Baker III and Lee H. Hamilton, “The Iraq Study Group Report: The Way Forward-A New Approach,” (2006), [http://www.usip.org/isg/iraq\\_study\\_group\\_report/report/1206/iraq\\_study\\_group\\_report.pdf](http://www.usip.org/isg/iraq_study_group_report/report/1206/iraq_study_group_report.pdf) (Accessed February 2, 2007), 22.

context, the debate about fair oil distribution has intensified. Unfortunately, much of the debate about how to distribute the oil is largely being driven by U.S. domestic and international politics. Greater attention needs to be given to those scenarios that are focused on solving the main economic problems facing the country.

The basic premise throughout this thesis is that oil revenues must be equitably distributed if a full-scale civil war is to be avoided. Specifically, if a solution including consensus and a fair distribution system is reached, it should bring stability and peace to the region and to the world.

### **C. ACADEMIC DEBATE AND POLITICAL CONSIDERATIONS**

"The oil sector and the allocation of its revenues is the critical element in shaping both the economic structure and political systems of many countries. In this context, a vast literature focuses on the so called 'oil curse' or the 'paradox of plenty.'"<sup>3</sup> These colorful phrases capture the gist of oil's potentially destructive powers: unless properly managed, oil revenues more often than not undermine the economic, political, and social fabric of countries irrespective of how well intended their long-term goals and objectives are. The result is often the creation of a rentier state mired in corruption, economic mismanagement, and authoritarianism.<sup>4</sup> Iraq is no exception to this situation. Thus, it is important to discuss a fair oil distribution in that country. However, academics, Iraqi leaders and government officials, U.S. planners and military minds, as well as key regional and global countries, have different approaches to the issue. The main debates are centered on which type of government is better for Iraq: a strong central government or a federal system.

"Iraqi's Kurdish leaders have been particularly aggressive in asserting independent control of the oil assets, going as far as signing and implementing

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<sup>3</sup> Robert Looney, "The Economic Challenge: Building a Viable New Iraq," in *After the Dictator: the Rebirth of Iraq*, Barry Rubin (New York: M.E. Sharpe, 2007), 3.

<sup>4</sup> Ibid.

investment deals with foreign oil companies in northern Iraq. Shia Arabs are also reported to be negotiating oil investment contracts with foreign companies.”<sup>5</sup> Moreover, Sunni Arabs are opposed to the idea of federalism, and two major Shia Arab leaders, Hakim and Sadr, have differed on the key issues of federalism and oil distribution.<sup>6</sup>

There is also diversification between the U.S. and regional countries. The U.S. Department of Defense defines the type of government clearly in its proposed timetable to Congress, “such a timetable could lead to changes in the political dynamic in Iraq, providing support for the government’s own long-term vision: a united, federal, and democratic country, at peace with its neighbors and itself.”<sup>7</sup>

Turkey has a different policy than the U.S. “Since 1991, Turkish governments had pursued a policy that aimed to preserve the territorial integrity and unity of Iraq.”<sup>8</sup> Abdullah Gül, Deputy Prime Minister and Minister of Foreign Affairs of the Republic of Turkey, explained Turkey’s policy.

Iran’s policy is not as clear as that of Turkey’s. However, many experts including Joost Hiltermann, the Middle East program director of the International Crisis Group, says that Iran supports Shi’a Arabs and desires federalism within Iraq.

Many scholars are also divided on the issue. Some scholars argue that partitioning or federalism is already a historical reality, and should not be seen as a problem. For example, Nina Kamp, Micheal O’Hanlon and Amy Unikewicz

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<sup>5</sup> Baker and Hamilton, “The Iraq Study Group Report,” 22.

<sup>6</sup> Anthony H. Cordesman, “Iraq’s Sectarian and Ethnic Violence and the Evolving Insurgency: Developments through late-January 2007,” *Center for Strategic and International Studies* (January 2007); 4.

<sup>7</sup> U.S. Department of Defense, Quarterly Report to Congress: Measuring Stability and Security in Iraq, 2006, 6,9.

<sup>8</sup> Rick Fawn and Raymond Hinnebusch, *The Iraq War: Causes and Consequences* (Lynn Rienner Publishers, Inc., 2006), 204.

argue that federalism is needed due to the current situation.<sup>9</sup> On the other hand, other scholars such as Anthony Cordesman<sup>10</sup> and James Cogan<sup>11</sup> indicate that possible results of such a partition would be the increasing of violence. Daniel L. Byman and Kenneth M. Pollack also recommend that the U.S. government avoid active support for partition at least for now due to the potential to set off a full-scale civil war.<sup>12</sup>

In addition to the federalism argument, there are proposals from scholars to redistribute a portion of Iraq's oil revenues directly to the population on a per capita basis.<sup>13</sup> Looney argues that these proposals have the potential to give all Iraqi citizens a stake in the nation's chief natural resource, but it would take time to develop a fair distribution system.<sup>14</sup> However, no institution in Iraq currently exists that could properly implement such a distribution system. "It would take substantial time to establish, and would have to be based on a well-developed state census and income tax system, which Iraq currently lacks."<sup>15</sup> Additionally,

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<sup>9</sup> Nina Kamp, Michael O'Hanlon and Amy Unikewicz, "The State of Iraq: An Update," The New York Times, December 20, 2006, <http://www.nytimes.com/2006/12/20/opinion/20ohanlon.html?ex=1324270800&en=4b30850d9038e720&ei=5088&partner=rssnyt&emc=rss> (Accessed February 4, 2007).

<sup>10</sup> Anthony H. Cordesman, "Dividing Iraq: Think Long and Hard First," *Center for Strategic and International Studies* (January 2007), [http://www.csis.org/media/csis/pubs/060501\\_dividingiraq.pdf](http://www.csis.org/media/csis/pubs/060501_dividingiraq.pdf) (Accessed February 13, 2007), 4.

<sup>11</sup> James Cogan, "U.S. Democrat Biden Advocates the Communal Break-up of Iraq," World Socialist Web Site, <http://www.wsws.org/articles/2006/may2006/bide-m09.shtml> (Accessed February 13, 2007).

<sup>12</sup> Daniel L. Byman and Kenneth M. Pollack, "Things Fall Apart:Containing the Spillover from an Iraqi Civil War" (analysis paper no. 11, The Saban Center for Middle East Policy at the Brookings Institution, January 2007), [http://media.brookings.edu/MediaArchive/fp/jan2007iraq\\_civilwar.pdf](http://media.brookings.edu/MediaArchive/fp/jan2007iraq_civilwar.pdf) (Accessed February 4, 2007).

<sup>13</sup> Baker and Hamilton, "The Iraq Study Group Report," 23.

<sup>14</sup> Robert Looney, "Can Iraq Overcome the Oil Curse?" *World Economics* 7.1, (January-March 2006); 34.

<sup>15</sup> Baker and Hamilton, "The Iraq Study Group Report," 23.

others, especially Johnson,<sup>16</sup> Martin, and Subramanian,<sup>17</sup> indicate that a direct distribution system could bring fair distributions for every man and woman in Iraq, thus limiting the insurgency problem.

The Iraqi Constitution is also important in relation to ethnic conflicts and/or violence, and oil in that country. Many scholars indicate the importance of these issues, such as Benomar, who indicates, “the constitution and constitution-making process represents people’s will, forges a consensus regarding the future of the state, and ensures respect for universal principles such as human rights and the basic norms of democratic governance.”<sup>18</sup>

Finally, drafting the new oil law lies at the heart of debates about the future of Iraq, especially the issue of a strong central government versus strong regional governments or federalism. “The oil question has also inflamed ethnic and sectarian tensions. Sunni Arabs, who preside over areas of the country that apparently have little or no oil, are adamant about the equitable distribution of oil revenues by the central government.”<sup>19</sup>

#### **D. THE MAIN PROBLEMS FACING IRAQ REGARDING OIL**

Every day hundreds of innocent people are losing their lives due to ongoing ethnic and sectarian violence in Iraq. Moreover, Iraqis themselves are increasingly skeptical of the viability of the ongoing economic strategy, and

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<sup>16</sup> Gordon O. Johnson, “Iraq’s Oil Revenues should Empower the People” (speech, Heritage Foundation, June 3, 2004).

<sup>17</sup> Xavier Sala-i-Martin and Arvind Subramanian, “Addressing the Natural Resource Curse: An Illustration from Nigeria,” National Bureau of Economic Research <http://www.nber.org/papers/w9804> (Accessed February 14, 2007).

<sup>18</sup> Jamal Benomar, “Constitution Making After Conflict,” *Journal of Democracy* 15.2, (April 2004); 82.

<sup>19</sup> Edward Wong, “Iraqis Near Deal on Distribution of Oil,” *The New York Times*, December 9, 2006, <http://www.nytimes.com/2006/12/09/world/middleeast/09oil.html?ex=1323320400&en=b08df7038436ab20&ei=5088&partner=rssn> (Accessed February 4, 2007).

semblance of stability.<sup>20</sup> In this chaotic environment, many people believe that immediate and long-term growth depends predominantly on the oil sector.<sup>21</sup> But how can Iraq overcome the oil curse?<sup>22</sup>

The United States General Accountability Office (GAO), Congress's non-partisan investigative agency, conducted a study in which they identified characteristics that are useful in examining the effectiveness of a proclaimed strategy. These desirable characteristics are:

- A statement of purpose, scope, and methodology;
- Problem definition and risk assessment;
- Goals, subordinate objectives, activities, and performance measures;
- Resources, investments, and risk management;
- Organizational roles, responsibilities, and coordination;
- Integration and implementation.<sup>23</sup>

To a varying degree, these characteristics can be used to find a solution for the chaotic environment in Iraq. The strategy should also be holistic in its approach, and define the problem(s) clearly.<sup>24</sup> In this context, there are intermingled problems facing Iraq regarding the economy, particularly the oil economy.

## **1. Difficulties in Designing an Economic Strategy for Iraq**

A major problem in designing an economic strategy for Iraq is that the country's economic environment does not fit neatly into any category of the

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<sup>20</sup> Looney, "Can Iraq Overcome the Oil Curse?" 23.

<sup>21</sup> Baker and Hamilton, "The Iraq Study Group Report," 21.

<sup>22</sup> Looney, "Can Iraq Overcome the Oil Curse?", 1.

<sup>23</sup> Yim A. Randall, "Combating Terrorism: Evaluation of Selected Characteristics in National Strategies Related to Terrorism," U.S. Government Accountability Office, [www.gao.gov/cgi-bin/getrpt?GAO-04-408T](http://www.gao.gov/cgi-bin/getrpt?GAO-04-408T) (Accessed February 23, 2007).

<sup>24</sup> Colin S. Gray, *Explorations in Strategy* (Westport: Praeger Publishers, 1996), 6.

standard development strategies. In fact, the immediate Iraqi post-war economy could conceivably be viewed from a number of perspectives, each encompassing certain aspects present today. These are:

- Transition economy.
- Failed state.
- Rentier economy.
- Post-conflict economy.
- Failed take-off economy.<sup>25</sup>

## **2. Shadow Economy**

While Iraq's oil has always held the prospect for future prosperity, the unfortunate fact is that most oil-rich developing countries are underperformers across a whole spectrum of economic, social, political and governance standards.<sup>26</sup> In other words, the oil has brought an informal or shadow economy.

<sup>27</sup>

## **3. Ethnic Groups, Sectarian Groups, Tribes, and Extended Families vs. National Identity**

Iraq has a tribal society that consists of many ethnic groups, sectarian groups, tribes, and extended families. One can never easily divide the cities and the oil areas among these groups. In this turmoil, there is a big question of how the nation's wealth is distributed. "This has not only opened the door for over-ambitious, ethnically based political agendas, but also rivalry for the wealth that should belong to all Iraqis. It has highlighted the divisions that have existed in Iraq for centuries, but failed to stress at the same time the Iraqi national identity,

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<sup>25</sup> Robert Looney, "Socio-Economic Strategies to Counter Extremism in Iraq," *Journal of South Asian and Middle Eastern Studies* XXIX.2, (Winter 2006); 23.

<sup>26</sup> Robert Looney, "Economic Consequences of Conflict: The Rise of Iraq's Informal Economy," *Journal of Economic Issues*, (December 2006); 3.

<sup>27</sup> Robert Looney, "The Business of Insurgency: The Expansion of Iraq's Shadow Economy," *RISEC* 52, (December 2005); 1.

the only glue that can hold this society together. Without such basic assurances, the people are unable to see what stake they have in Iraq's future.”<sup>28</sup>

#### **4. Ethnic and Sectarian Violence**

The Iraq Study Group said in its December 6, 2006 report that the “...situation in Iraq is grave and deteriorating,’ a view that appears widely shared by experts.”<sup>29</sup> President Bush, in his January 10, 2007 speech on Iraq, also said that the situation in Iraq is unacceptable to the American people and it is unacceptable to him. “Additionally, the deterioration in security is, at least partly, the result of growing sectarian violence—that some major news organizations now openly call a ‘civil war.’”<sup>30</sup>

#### **5. Criminal Economy and the Main Problems Due to Ethnic and Sectarian Violence**

Looney discusses that there is a criminal economy and the following problems have been occurring because of the ongoing conflict in Iraq.

- Organized Crime, Iraqi-Style.
- The Gasoline Scam.
- The Kidnapping Industry.
- The Drug Trade.
- Money Laundering.<sup>31</sup>

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<sup>28</sup> Abdullah Gül, “The East's Problem is Internal, not a Clash with the West,” *Financial Times*, January 17, 2007.

<sup>29</sup> Kenneth Katzman, “Iraq: Post-Saddam Governance and Security,” *Congressional Research Service Report for Congress* (CRS Order Code RL31339), February 1, 2007, 26.

<sup>30</sup> Katzman, “Iraq,” 26.

<sup>31</sup> Robert Looney, “Iraq's Shadow Economy,” *The National Interest* (Fall 2005); 1.



## **6. No Dependable Census Since 1957**

“The last dependable census was conducted in 1957, and Iraqi government explained the result of that census in 1959.”<sup>32</sup> Therefore, a credible census is needed to permit fair oil revenue distribution.

## **7. Constitutional Problems**

According to many scholars, “of all the articles in the constitution those relating to oil have been the most contentious. The key provisions are outlined in Articles 111 and 112.”<sup>33</sup> In fact, unless it is amended, the Iraqi Constitution will most likely play a significant role in structuring both production and revenue developments in the oil sector. However, it raises many questions about the fate of the country’s oil sector and the merits of reorganizing its national oil company or devolving power in the oil sector to local or regional authorities.<sup>34</sup>

## **8. Kirkuk Issue**

“As all eyes are turned toward efforts to stabilize Iraq, the conflict that has been percolating in Kirkuk remains dangerous and dangerously neglected. That struggle is equal parts street brawl over oil riches, ethnic competition over identity between Kurdish, Turkmen, Arab and Assyrian-Chaldean communities.”<sup>35</sup> In this chaotic environment, Article 140 of the Iraqi Constitution says that there has to be a referendum until 12/31/2007.

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<sup>32</sup> Brendan O’Leary and Khaled Salih, “The Denial, Resurrection, and Affirmation of Kurdistan,” in *The Future of Kurdistan in Iraq*, eds. Brendan O’Leary, John McGarry, and Khaled Salih, (Philadelphia, PA: University of Pennsylvania Press, 2005), 83.

<sup>33</sup> Looney, “The Economic Challenge,” 16.

<sup>34</sup> Joe Barnes and Amy M. Jaffe, “The Persian Gulf and the Geopolitics of Oil,” *Survival* 48.1, (March 2006); 151.

<sup>35</sup> International Crisis Group, “Iraq and the Kurds: The Brewing Battle over Kirkuk,” *Middle East Report*, no. 56, (July 18, 2006); 1.

## **9. Organization of Iraqi Security Forces (ISF)**

ISF is based on ethnic and sectarian groups and it does not have a national identity. In fact, the units are based on sectarian or ethnic groups; however, most of the commanders of these units are not appointed from the same sect or ethnic group as the troops that they command. In this manner, it is difficult for a commander to command his troops.

Besides the ISF, there are also ethnic and sectarian militia groups, which have the potential to increase the tension in Iraq. Hamid Afandi, the head of Peshmerga for the Kurdistan Democratic Party (KDP), one of the two major Kurdish groups, said, "if we can resolve this by talking, fine, but if not, then we will resolve it by fighting. We have 7,000 Peshmerga in Kirkuk, as well as 3,000 in Mosul"<sup>36</sup>

## **10. Dreams of the Kurds and Possible Results of these Dreams**

Kurds have many dreams to take the biggest part of oil revenues to establish an independent government. In this context, as a first step, "they are moving systematically to increase their control of Kirkuk to guarantee annexation of all or most of the city and province into the "Regional Government (KRG)" after the constitutionally mandated referendum scheduled to occur no later than December 31, 2007."<sup>37</sup>

## **11. Oil Areas**

The oil map shown in Figure 1 clearly defines that oil areas cause tension in Iraq. The lack of oil in the predominantly Sunni Arab areas of Iraq requires equitable distribution of revenue to keep the nation together.

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<sup>36</sup> *Turkish Daily News*, "Hamid Afandi: Kirkuk is Kurdistan," February 14, 2005.

<sup>37</sup> National Intelligence Council, "Prospects for Iraq's Stability: A Challenging Road Ahead," Federation of American Scientists, (January 2007), <http://www.fas.org/irp/dni/iraq020207.pdf> (Accessed February 25, 2007).

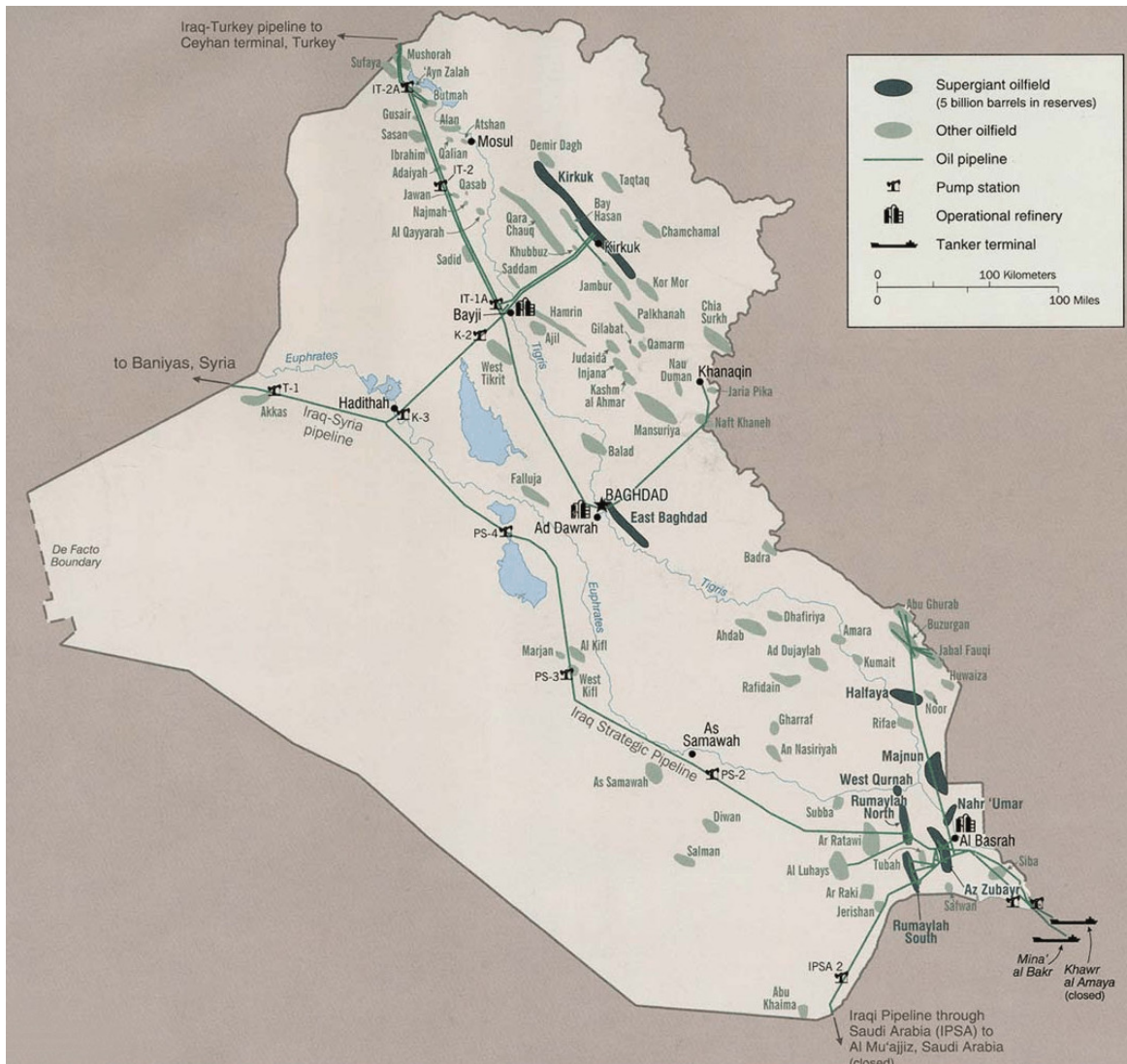


Figure 1. Oil Map of Iraq<sup>38</sup>

## 12. Current and Possible Pipelines and Their Security Problems

Figure 2 clearly defines that the current pipeline system has security problems in today's chaotic atmosphere. Taking security measures for the pipelines will also likely be a problem for the future. Additionally, it will also be a problem in possible future pipelines.

<sup>38</sup> Energy Information Administration, "Iraq Oil Map," [http://www.eia.doe.gov/emeu/security/esar/esar\\_bigpic.htm](http://www.eia.doe.gov/emeu/security/esar/esar_bigpic.htm) (Accessed February 25, 2007).

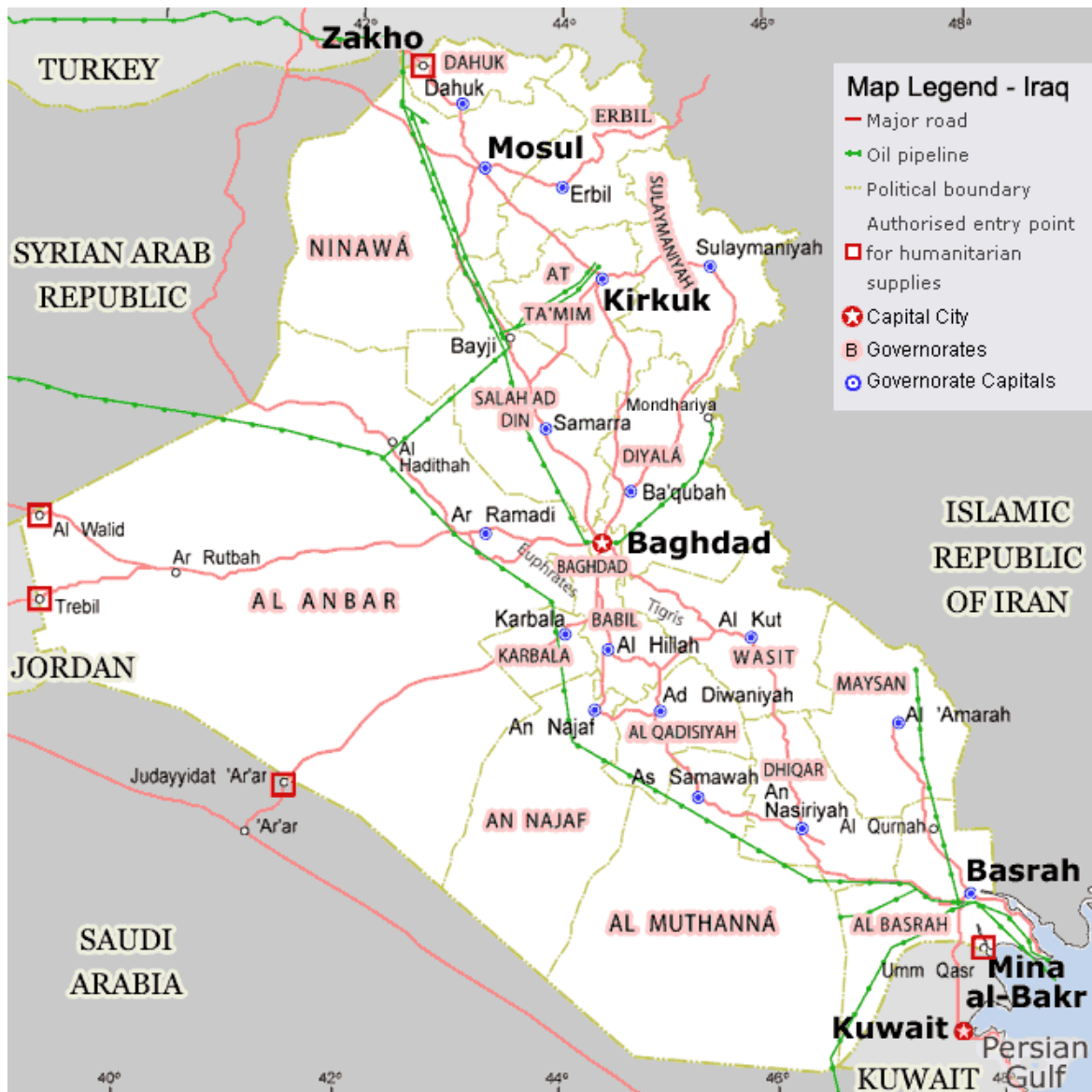


Figure 2. Pipelines in Iraq <sup>39</sup>

### 13. The Need for Additional Oil Refineries

"Iraq has only three big refineries; the 310,000-bbl/d Baiji, 150,000-bbl/d Basra, and 110,000-bbl/d Daura plants. In order to reduce Iraq's need for oil product imports, significant investment will be needed to perform refinery

<sup>39</sup> Energy Information Administration, "Iraq Oil Pipelines," <http://www.eia.doe.gov/emeu/cabs/Iraq/Oil.html> (Accessed February 25, 2007).

upgrades (Iraq had identified dozens of such projects prior to the 2003 Iraq war) and possibly to build new refineries.”<sup>40</sup> “As well as being costly, the supply of imported fuels cannot be relied on. Deliveries from Syria and Jordan, which border on the volatile Anbar governorate, have come to a halt because of the instability.”<sup>41</sup>

#### **14. Diversification of Industries and Agriculture**

“Historically, Iraq was one of the major agricultural countries in the world. However, since the 1950’s, the country’s economy has been increasingly dominated by the oil sector.”<sup>42</sup>

#### **15. Results from the January and December 2005 Elections**

Before and during both of these elections, approximately 350,000 Kurds moved to Kirkuk from other Kurdish cities with the goal of counter-balancing the effects of Arabization.<sup>43</sup> According to Kurd sources, during the Arabization period 250,000 to 400,000 Kurds were forced to move from Kirkuk; however, this number according to Turkmen and Arab sources is more likely between 30,000 and 50,000.<sup>44</sup> Additionally, the author of this study also witnessed other Kurdish pre-election cheatings.

### **E. CHAPTER-BY-CHAPTER SUMMARY**

This thesis examines the oil distribution problem in Iraq as a case study. In particular, a number of scenarios are developed that trace the logical

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<sup>40</sup> Energy Information Administration, “Iraq Oil Pipelines,” <http://www.eia.doe.gov/emeu/cabs/Iraq/Oil.html> (Accessed February 25, 2007).

<sup>41</sup> Shawkat al-Bayati, “Iraq Has Plenty of Oil But No Gasoline,” *Environmental News Service*, (May 12, 2005), <http://www.ens-newswire.com/ens/may2005/2005-05-12-03.asp> (Accessed February 25, 2007).

<sup>42</sup> Looney, “Economic Consequences of Conflict,” 2.

<sup>43</sup> Cordesman, “Dividing Iraq,” 108.

<sup>44</sup> Ralph Peters, “Blood Borders How a Better Middle East Would Look,” *Armed Forces Journal*, (June 2006), <http://www.armedforcesjournal.com/2006/06/1833899> (Accessed September 13, 2007).

consequences of alternative oil-distribution systems. In this context, this study argues the original system outlined in the Iraqi Constitution, the reasons for modification of the constitution, and the ramifications and aspects of the new oil law. The study also discusses the federal governmental system vs. a strong central governmental system as it pertains to revenue sharing of oil. Additionally, the study examines the direct distribution system and makes recommendations based on the findings of the aforementioned studies. Finally, it offers a solution based on the information discussed in the first four chapters.

This study draws on the sources of the above scholars, as well as others working in the area of Iraq, oil distribution, and governmental structures. It also uses explanations of related countries' officials, predominantly people from Iraq, the U.S., Turkey, Iran, and other regional and global key actors. Additionally, the author's personal observations and thoughts gained while serving in and related to Iraq in various missions are important sources for these arguments.

In this context, Chapter II discusses implementation considerations, economic and other problems, and ethnic and sectarian violence regarding the constitution and draft oil law. Additionally, it discusses possible solutions for the problems mentioned above.

Chapter III discusses a core issue, federalism vs. a strong central government. It especially argues the effects of the state formation and democracy history of Iraq, the ongoing war and promoting democracy efforts regarding the federalism issue and oil politics. It also discusses the relationship between the main problems, ethnic and sectarian violence, and federalism and oil politics. Additionally, this chapter identifies the key factors leading to success or failure.

Chapter IV discusses the proposals on a direct distribution system — direct payments to the population. In this context, it talks about different proposals discussed by scholars. Additionally, it argues the advantages and

disadvantages of such a system. Ultimately, it evaluates and compares those advantages and disadvantages to reach a conclusion on the issue.

Chapter V offers an approach for an ideal oil distribution scenario. Additionally, it discusses possible modifications of the Iraqi Constitution and new Iraqi Hydrocarbon/Oil Law. It also recommends eight steps to help achieve a solution.

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## **II. THE ORIGINAL SYSTEM OUTLINED IN THE IRAQI CONSTITUTION AND THE NEW HYDROCARBON/OIL LAW: REASONS FOR MODIFICATION**

### **A. INTRODUCTION**

“The constitution and constitution-making process represents people’s will, forges a consensus regarding the future of the state, and ensures respect for universal principles such as human rights and the basic norms of democratic governance.”<sup>45</sup> “Additionally, constitutions can play a critical role in founding and unifying new or renewing states: Iraq is no exception.”<sup>46</sup> However, the situation in Iraq is grave and deteriorating. Though there is no path that can guarantee success, the prospects can be improved.<sup>47</sup> In fact, immediate and long-term growth depends predominantly on the oil sector.<sup>48</sup> However, a peculiar geography lies at the center of Iraq’s oil politics. Until recently, Sunni Arabs dominated Iraq, but most of its oil is located in other ethnic and sectarian groups’ regions.<sup>49</sup> Thus, fair oil distribution has remained one of the most problematic and important issues for that country. In this context, the Iraqi Constitution and drafting the New Hydrocarbon/Oil Law lie at the heart of debates, especially to find or to wipe out a solution for fair distribution of oil in that country.

In this context, this chapter discusses implementation considerations, economic and other problems, and ethnic and sectarian violence regarding the constitution and draft oil law. Additionally, it offers possible solutions for the problems mentioned above.

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<sup>45</sup> Benomar, “Constitution Making,” 82.

<sup>46</sup> Robert Looney, “Economic Consequences of the New Iraqi Constitution,” *Gulf Yearbook* (2005-2006); 365.

<sup>47</sup> Baker and Hamilton, “The Iraq Study Group Report,” 6.

<sup>48</sup> *Ibid.*, 21.

<sup>49</sup> Nikos E. Tsafos, “Geography and Oil Politics in Iraq” *SAIS Review* 26.1, (2006): 63.

## **B. IMPLEMENTATION CONSIDERATIONS: MAIN PROBLEMS**

Most people believe that near and long-term growth in the chaotic environment of Iraq depends predominantly on the oil sector.<sup>50</sup> But how can Iraq overcome the oil curse?<sup>51</sup> The Iraqi Constitution and the New Hydrocarbon/Oil Law should have been the first steps to overcome such thorny problems. However, there are many intermingled problems facing Iraq, which cause an increase in violence in that country, and which stem from the constitution and the new oil law.

Many scholars believe that perhaps of all the articles in the constitution, those relating to oil have been the most contentious.<sup>52</sup> In fact, unless it is amended, the Iraqi Constitution will likely play a significant role in structuring both production and revenue developments in the oil sector. However, it raises many questions about the fate of the country's oil sector and the merits of reorganizing its national oil company or devolving power in the oil sector to local regional authorities.<sup>53</sup> In this context, it can be said that the key provisions on oil are outlined in Articles 111 and 112 of the constitution; yet, there are many other problematic areas in other articles.

## **C. ARTICLES 111 AND 112 OF IRAQI CONSTITUTION**

### **1. Article 111**

"Oil and gas are owned by all the people of Iraq in all the regions and governorates." <sup>54</sup>

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<sup>50</sup> Baker and Hamilton, "The Iraq Study Group Report," 21.

<sup>51</sup> Looney, "Economic Consequences of the New Iraqi Constitution," 365.

<sup>52</sup> Ibid., 370.

<sup>53</sup> Barnes and Jaffe, "The Persian Gulf," 151.

<sup>54</sup> Export.gov, "Iraqi Constitution," (2005), [http://www.export.gov/iraq/pdf/iraqi\\_constitution.pdf](http://www.export.gov/iraq/pdf/iraqi_constitution.pdf) (Accessed July 15, 2007).

## **2. Article 112**

### **a. First**

The federal government, with the producing governorates and regional governments, shall undertake the management of oil and gas extracted from present fields, provided that it distributes its revenues in a fair manner in proportion to the population distribution in all parts of the country, specifying an allotment for a specified period for the damaged regions which were unjustly deprived of them by the former regime, and the regions that were damaged afterwards in a way that ensures balanced development in different areas of the country, and this shall be regulated by a law.<sup>55</sup>

### **b. Second**

The federal government, with the producing regional and governorate governments, shall together formulate the necessary strategic policies to develop the oil and gas wealth in a way that achieves the highest benefit to the Iraqi people using the most advanced techniques of the market principles and encouraging investment.<sup>56</sup>

The two articles mentioned above have problematic areas, especially for the Sunni Arab people of Iraq. In fact, they are not equal recipients of the oil revenue. The wording of Article 112 hints that an exploration and development strategy will be undertaken in partnership with the region.<sup>57</sup> “In this context, the Kurds are allowed to form a single supra-region in the oil-rich north; the Shi’a Arabs to form theirs in the oil-rich area in the south, while the Sunni Arabs are left in the oil-dry center.”<sup>58</sup> Additionally, with the help of the Iraqi Constitution, Turkmen and Christian minorities also fear that the Kurds and the Shi’a Arabs will create their super-region and exclude them from the profits.

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<sup>55</sup> Export.gov, “Iraqi Constitution.”

<sup>56</sup> Ibid.

<sup>57</sup> *Oxford Analytica*, “Iraq Draft Constitution Has Strong Federal Theme,” August 30, 2005.

<sup>58</sup> Fred Kaplan, “Articles of Consternation: Iraq’s Infuriatingly Vague Constitution,” *Slate*, (August 23, 2005) <http://www.slate.com/id/2124893/> (Accessed July 5, 2007).

On the other hand, Article 112 refers only to revenue from current oil and gas fields; it does not refer to the vast untapped wells. In this context, Sunni Arabs fear that they will see little revenue derived from new wells brought on line in the future.<sup>59</sup> Additionally, “as the constitution stands, the regional states are delegated authority over all new fields and therefore control over the negotiation of exploration contacts and the bulk of revenues derived from future production.”<sup>60</sup> In this context, the Kurds have made agreements with foreign companies independent of the Iraqi Oil Ministry.<sup>61</sup>

The situation mentioned above shows that the Iraqi Constitution, as currently worded, could allow several autonomous zones in which the central government in Baghdad would not have complete control over oil resources. Such an interpretation would likely lead to more chaos and more violence. “Since the constitution’s treatment of the ownership and distribution of oil resources and revenues has the potential in the context of a federalist state organization to contribute to the country’s economic instability.”<sup>62</sup>

In summary, Articles 111 and 112 appear to satisfy Kurdish and Shi’a Arab concerns and needs at the expense of the others. “Furthermore, the constitution leaves open the possibility of abuse of economic power by the Kurds and Shi’a Arabs. Additionally, the constitutions’ lack of clarity on many oil issues such as production and distribution are also conducive to an atmosphere of corruption and the creation of failed rentier state.”<sup>63</sup>

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<sup>59</sup> Looney, “Economic Consequences of the New Iraqi Constitution,” 371.

<sup>60</sup> Ibid.

<sup>61</sup> Voice of America, “Kürtler Petrol Konusunda Direniyor,” (December 5, 2005) <http://www.voanews.com/turkish/archive/2005-12/2005-12-05-voa5.cfm> (Accessed July 5, 2007).

<sup>62</sup> Looney, “Economic Consequences of the New Iraqi Constitution,” 373.

<sup>63</sup> Ibid., 374.

## **D. THE KIRKUK ISSUE**

### **1. Violence Increases Despite the New Hydrocarbon/Oil Law**

The Iraqi government made some progress towards political conciliation and reducing the causes of sectarian and ethnic tension in early 2007. In this context, the Iraqi cabinet approved the New Hydrocarbon/Oil Law in late February 2007. The oil minister, Hussein Shahrستاني, promised that oil and gas resources would be "the property of the Iraqi people" and that revenues would be distributed equally among the regions.<sup>64</sup> "The exploitation of Iraq's fields will be decided by a process of open bidding, based on model contracts,' Mr. Shahrستاني said. 'The process will be transparent and open.'"<sup>65</sup> However, this progress was far more conceptual than a matter of creating new facts on the ground. Key issues like Kirkuk remained unresolved.<sup>66</sup>

The Kirkuk issue is one of the most complicated and important issues challenging fair oil distribution in advancing. However, violence increases day after day in or around the city. In the first half of July 2007, 250 people were killed and approximately 500 people were seriously wounded in or around the city of Kirkuk.<sup>67</sup> This latest wave of deadly attacks to hit the oil-rich, ethnically-combustible city of Kirkuk appears to be a prelude of worse things to come, with a referendum to decide its status looming by the end of 2007.<sup>68</sup> In this context, it

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<sup>64</sup> *The Daily Telegraph*, "Iraq Prepares to Allow Foreign Firms to Exploit its Oil and Gas Riches," (February 27, 2007) <http://www.noozz.com/Iraq/PrinterVersion.aspx?ArticleId=206438> (Accessed July 7, 2007).

<sup>65</sup> Ibid.

<sup>66</sup> Anthony H. Cordesman, "Iraq's Sectarian and Ethnic Violence and the Evolving Insurgency: Developments through Spring 2007," *Center for Strategic and International Studies*, (May 2, 2007).

<sup>67</sup> *CNN Turk*, "Kerkük'te Bombalı Saldırıları: 85 Ölü," (July 16, 2006) [http://www.cnnturk.com/haber/haber\\_detay.asp?PID=00319&haberID=377069](http://www.cnnturk.com/haber/haber_detay.asp?PID=00319&haberID=377069) (Accessed July 17, 2007).

<sup>68</sup> *Assyrian International News Agency*, "The Temperature Rises in Kirkuk," May 26, 2007.

is important to find the answers for the following questions: Will the tension and violence decline or increase? Why is there so much tension in or around Kirkuk? What are the effects of this tension?

## **2. The Same Perspective from Different Reports**

The International Crisis Group (ICG), who is working to prevent conflict worldwide, published a report on July 18, 2006 about the tensions in Kirkuk, Iraq. According to the ICG report, “as all eyes are turned toward efforts to stabilize Iraq, the conflict that has been percolating in Kirkuk remains dangerous and dangerously neglected. That struggle is equal parts street brawl over oil riches, ethnic competition over identity between Kurdish, Turkmen, Arab and Assyrian-Chaldean communities.”<sup>69</sup>

On the other hand, in January 2007, the National Intelligence Estimate on Iraq described the complex patterns of violence in and around Kirkuk. “The Kurds are moving systematically to increase their control of Kirkuk to guarantee annexation of all or most of the city and province into the “Regional Government (KRG)” after the constitutionally mandated referendum scheduled to occur no later than December 31, 2007. Arab groups in Kirkuk continue to resist violently what they see as Kurdish encroachment.”<sup>70</sup>

The Pentagon also mentions that sectarian violence is gradually expanding north to Kirkuk and Diyala provinces.<sup>71</sup> Additionally, the Baghdad Coroner’s Office reported that hundreds of people were killed in or around Kirkuk, and the deceased predominantly consisted of the important persons of the tribes, ethnic groups, and religious sects.<sup>72</sup>

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<sup>69</sup> International Crisis Group, “Iraq and the Kurds.”

<sup>70</sup> National Intelligence Council, “Prospects for Iraq’s Stability.”

<sup>71</sup> U.S. Department of Defense, *Quarterly Report to Congress: Measuring Stability and Security in Iraq*, March 2007, 5.

<sup>72</sup> *Sabah Gazetesi*, “ASAM Irak Raporu,” September 12, 2006.

Different reports mentioned above indicate that tension and violence is increasing in and around Kirkuk. In this context, it is important to understand the reasons and the affects of increasing tension and violence. This issue should be analyzed in an historical context for a better understanding.

### **3. Historical Events Related with Kirkuk from World War I to the U.S. Invasion**

Kirkuk has always been very important in the Ottoman and modern Iraq's history, but the biggest problems began after World War I. The discovery of vast quantities of oil in the region after World War I provided the impetus for the annexation of the former Ottoman Wilayah of Mosul (of which the Kirkuk region was a part) to the Iraqi Kingdom, which was established in 1921.<sup>73</sup> During the Conference of Lausanne, in order to write a new treaty with Turkey after the Turkish War of Independence, Mosul and Kirkuk were not given to any party. Thus, the issue remained a problem that was to be solved at a later date by the League of Nations. Then, Kirkuk was given to Iraq under the mandate of Great Britain in 1926 in accordance with the resolution of the League of Nations.

In 1927, a large oil gusher was discovered at Baba Gurgur near Kirkuk, which greatly increased the importance of the city and its environs. "Then Prime Minister Nuri Said declared the independence of Iraq in 1932 by addressing the primary components of the new state as Arabs, Kurds, and Turkmens. However, after General Qasim came to power in 1958, the interim constitution changed the situation."<sup>74</sup> In that constitution, Arabs and Kurds were defined as the owners of the country; however, the Turkmens' and the other ethnic groups' rights were

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<sup>73</sup> David Fromkin, *A Peace to End all Peace; Creating the Modern Middle East, 1914-1922* (Epsilon Publishing Inc., 2004), 21.

<sup>74</sup> Peter W. Galbraith, *How American Incompetence Created a War Without End* (Simon & Schuster Publishing, Inc., 2006), 138.

revoked. “Immediately following the constitution, the Baathists commenced the ethnic violence by killing thirty Turkmen, with an idea of Arabization, in Kirkuk in 1959.”<sup>75</sup>

The actual Arabization Movement, a violent campaign and an attempt to transform the historically multi-ethnic city of Kirkuk into an Arab city, began in 1961, and many thousands of Kurds and Turkmen were exiled. “Immediately afterwards, Mullah Mustafa Barzani explained that Kurds desired Kirkuk from 1923, and he declared the foundation of the Peshmerga, or armed Kurdish fighters.”<sup>76</sup> Arabization continued up until the U.S. invasion in 2003. According to the Human Rights Watch, from the 1991 Gulf War until 2003, the former Iraqi government systematically expelled an estimated 120,000 Kurds, Turkmen, and Assyrians from Kirkuk and other towns and villages in this oil-rich region.<sup>77</sup> Meanwhile, the Iraqi government resettled Arab families in their place in an attempt to reduce the political power and presence of ethnic minorities.<sup>78</sup>

On the other hand, even within the Kurdish dominated regions, internal politics made settling the Kirkuk issue more difficult during the 1990s. The two main Kurdish fractions, the Kurdish Democratic Party (KDP) and the Patriotic Union of Kurdistan (PUK), were locked in a political rivalry that gave way to a civil war. Hostilities culminated between these two Kurdish entities in 1988.<sup>79</sup> This conflict led to the establishment of the Peace Monitoring Force (PMF). The PMF was established by the United Nations in order to separate KDP and PUK combat units in 1996.

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<sup>75</sup> I Peter W. Galbraith, *How American Incompetence Created a War Without End* (Simon & Schuster Publishing, Inc., 2006), 138.

<sup>76</sup> Galbraith, *How American Incompetence*, 193.

<sup>77</sup> Tom Malinowski, “Prosecuting Iraqi War Crimes,” *Human Rights Watch*, (April 10, 2003); 5.

<sup>78</sup> Ibid.

<sup>79</sup> Patricia Nunan, “Kirkuk Emerges as Faultline for Civil Conflict in Iraq,” *Global Security Report*, <http://www.globalsecurity.org/wmd/library/news/iraq/2005/06/iraq-050606-247dd7e2.htm> (Accessed June 17, 2007).



#### 4. Events after the U.S. Invasion

After the fall of Saddam Hussein, the Peshmerga quickly took control of Kirkuk and plundered the Kirkuk Census Bureau.<sup>80</sup> "After Turkey expressed alarm at the possibility of Kurdish control of the Kirkuk oil fields (and the resulting wealth), the Kurdish militia withdrew to barracks outside the city. However, Kurdish militias have remained a presence in and around the city since that time. Additionally, the Kurdish militias have also systematically infiltrated the Iraqi Army units in the north of Iraq."<sup>81</sup>

The Kurds are also prepared to fight in order to gain control of the city. "Kirkuk is Kurdistan; it does not belong to the Arabs," Hamid Afandi, the head of Peshmerga for the Kurdistan Democratic Party (KDP), one of the two major Kurdish groups, said.<sup>82</sup> "If we can resolve this by talking, fine, but if not, then we will resolve it by fighting. We have 7,000 Peshmerga in Kirkuk, as well as 3,000 in Mosul"<sup>83</sup> Mesut Barzani, leader of the KDP, also stated that he would die before he ever relinquished Kirkuk. However, the Arabs, both Shi'a and Sunni, are also not prepared to surrender control of Kirkuk to the Kurds without a fight. "In a meeting in Kirkuk in July 2006, Muqtada al Sadr's representative in the city, Abdul Karim Khalifa, told U.S. officials that more armed loyalists were on the way and that as many as 7,000 to 10,000 Shi'a Arab residents were prepared to fight alongside the Mahdi Army if called upon."<sup>84</sup> He also stated that legions to assist the Shi'a Arab militiamen would push north from Baghdad's Sadr City slum.<sup>85</sup>

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<sup>80</sup> BBC News, "Kurds Occupy Oil City Kirkuk," [http://news.bbc.co.uk/2/hi/middle\\_east/2934625.stm](http://news.bbc.co.uk/2/hi/middle_east/2934625.stm) (Accessed June 10, 2007).

<sup>81</sup> Ibid.

<sup>82</sup> *Turkish Daily News*, "Hamid Afandi."

<sup>83</sup> *Turkish Daily News*, "Barzani: I will die for Kirkuk," February 14, 2005.

<sup>84</sup> Jonathan Finan, "Shiite Militias Move Into Oil-Rich Kirkuk, Even as Kurds Dig In," *The Washington Post*, April 25, 2006, [http://www.washingtonpost.com/wp-dyn/content/article/2006/04/24/AR2006042401560\\_pf.html](http://www.washingtonpost.com/wp-dyn/content/article/2006/04/24/AR2006042401560_pf.html) (Accessed June 10, 2007).

<sup>85</sup> Ibid.

In addition, Kurdish migration to Kirkuk greatly increased ethnic tensions during the January and December 2005 elections. Before and during both election periods, approximately 350,000 Kurds moved to Kirkuk from other Kurdish cities with the goal of undoing the effects of Arabization.<sup>86</sup> According to Kurdish sources, during the Arabization period, 250,000 to 400,000 Kurds were forced to move from Kirkuk. However, according to Turkmen and Arab sources, this number is more likely between 30,000 and 50,000.<sup>87</sup> The Election Committee leader for the region, Yahiya Assi Al-Haddidi, resigned due to his allegations of Kurdish pre-election cheating.<sup>88</sup>

On the other hand, in September 2002, the KDP and the PUK agreed to draft a constitution for a post-Saddam Iraq that would include a federal Kurdish region with Kirkuk as its capital.<sup>89</sup> After this event, “Turkish Prime Minister Ecevit made it clear that the formation of an independent Kurdish state in Northern Iraq, and the Kurdish occupation of the oil-rich territory of Kirkuk — at the time under Baghdad’s jurisdiction — would lead to war with Turkey.”<sup>90</sup> Moreover, Turkish Foreign Minister Abdullah Gül addressed that attempts to change the demographic character of Kirkuk would lead to war with Turkey, after Kurds plundered the Kirkuk Census Bureau in April 2003.<sup>91</sup> He also pointed out the attempts to ignore the existence of Iraqi Turkmens. He said that the last dependable census was conducted in 1957, and ‘the Iraqi Revolution 14<sup>th</sup> July Celebrations Committee’ explained the result of that census in 1959.<sup>92</sup> According

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<sup>86</sup> Cordesman, “Iraq’s Sectarian and Ethnic Violence,” 108.

<sup>87</sup> Peters, “Blood Borders.”

<sup>88</sup> Özüm Uzun and Duygu Dersan, “Irak Seçimleri Analizi,” *Global Strateji Enstitüsü*, [http://www.globalstrateji.org/TUR/Icerik\\_Detay.ASP?Icerik=313](http://www.globalstrateji.org/TUR/Icerik_Detay.ASP?Icerik=313) (Accessed August 17, 2007).

<sup>89</sup> Fawn and Hinnebusch, *The Iraq War*, 198.

<sup>90</sup> Ibid.

<sup>91</sup> GlobalSecurity.org, “Kirkuk,” <http://www.globalsecurity.org/intell/world/iraq/kirkuk.htm> (Accessed June 17, 2007).

<sup>92</sup> Ibid.

to the results, Turkmens made up 40% of the population of Kirkuk, Kurds composed 35%, Arabs 24%, and Christians 1%.<sup>93</sup>

There are also other important developments in Kirkuk during this time period. Kurdish officials began offering Arabs incentives to forfeit voting rights for the referendum. Arabs would receive \$19,000 if they moved from their homes and gave up their voting rights.<sup>94</sup> Furthermore, in late March 2007, the central Iraqi cabinet approved a decision to pay Arab families \$15,000 each to leave Kirkuk.<sup>95</sup> The offer would be extended to Arab families that had been forced to move to Kirkuk during Saddam Hussein's Arabization campaign; they would be given a piece of land in their original towns. Despite deteriorating economic conditions, however, it was unlikely that many Arab families would voluntarily relocate, effectively giving Kirkuk to "Kurdistan."<sup>96</sup>

## **5. The Situation Today**

In short, there are four major ethnic and sectarian groups in Kirkuk: the Shi'a Arabs, Sunni Arabs, Kurds, and Turkmens, all of whom have a claim and desire to control all or some of the regional oil reserves. Kirkuk is a city of incredible ethnic tensions. The destiny of Kirkuk, which has almost fourteen billion barrels of proven oil reserves, and in 1989 —when Iraq's revenues were twelve billion dollars at their high — acquired 70% of the annual revenues,<sup>97</sup> depends on the articles of the Iraqi Constitution. In this context, one should

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<sup>93</sup> Soner Cağaptay and Daniel Fink, "The Battle for Kirkuk: How to Prevent a New Front in Iraq" *The Washington Institute*, January 16, 2007.

<sup>94</sup> Louise Roug, "Northern Iraq Seen as Next Front in War," *Los Angeles Times*, February 1, 2007.

<sup>95</sup> *Reuters*, "Iraq to Compensate Arabs to Leave Kirkuk," April 1, 2007, <http://uk.reuters.com/article/gc05/idUKKAR15688920070331> (Accessed July 15, 2007).

<sup>96</sup> *Ibid.*

<sup>97</sup> British Petroleum Statistics, "BP Statistical Review of World Energy," 2006 [http://www.bp.com/liveassets/bp\\_internet/globalbp/globalbp\\_uk\\_english/publications/energy\\_reviews\\_2006/STAGING/local\\_assets/downloads/pdf/table\\_of\\_world\\_oil\\_production\\_2006.pdf](http://www.bp.com/liveassets/bp_internet/globalbp/globalbp_uk_english/publications/energy_reviews_2006/STAGING/local_assets/downloads/pdf/table_of_world_oil_production_2006.pdf) (Accessed July 16, 2007).

understand that Articles 112 and 140 of the Iraqi Constitution are very important in relation to ethnic conflicts and/or violence, and oil in or around Kirkuk.

**a. Article 112**

Article 112, as discussed above, appears to satisfy Kurdish and Shi'a Arab concerns and needs, but not that of others. In this manner, there is no exception about the Kirkuk issue.

**b. Article 140<sup>98</sup>**

(1) First: The executive authority shall undertake the necessary steps to complete the implementation of the requirements of all subparagraphs of Article 58 of the Transitional Administrative Law.

(2) Second: The responsibility placed upon the executive branch of the Iraqi Transitional Government, stipulated in Article 58 of the Transitional Administrative Law, shall extend and continue to the executive authority elected in accordance with this constitution. This is provided that it is completely accomplished (in normalization and census, and concludes with a referendum in Kirkuk and other disputed territories to determine the will of their citizens) by a date not to exceed the December 31, 2007.

With this history as a background, it is clear that a referendum will likely cause more problems and violence in and around Kirkuk. In this context, it can be said that as predicted by a number of authors from a wide spectrum of countries — especially the U.S., England and Turkey — the battle for Kirkuk will likely begin when the referendum in this chaotic environment is conducted or the American military begins its inevitable withdrawal.

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<sup>98</sup> Export.gov, "Iraqi Constitution."

## 6. Assessment

If aggressive steps are not taken now, there will likely be a civil war for control of Kirkuk and its oil wealth. Complicating this is the Kurds' desire for an "independent and broader Kurdistan," an event likely to provoke Turkey, Syria, and Iran. The Kurds consider Kirkuk to be the capital of "a greater Kurdistan" spanning from Turkey to Iran and Syria as mentioned by Mesut Barzani, the KDP leader.<sup>99</sup> In this context, it is possible that the Kurds want to merge Suleymaniyah with Kirkuk, and Irbil with Mosul to create "two new broader Kurdish dominated provinces." Additionally, Kurds would also like to take control of these new formations under the authority of the "KRG." The Kurds most likely have a plan to repel a Shi'a Arab and Sunni Arab intervention due to revenues of oil if they can create the new provinces. In the worst case scenario, the Kurds will likely think that they will use their Peshmerga, a 200,000-strong militia, of which 40,000 are ready under the control of the "KRG," and 20,000 of which are under the authority of the Central Iraqi Government, in case of a civil war.

In this context, the situation may cause for independent Kurdish and Shi'a Arab governments, which affects the key regional and global actors' economic and political interests. The situation also affects the long-term policies of regional and global key actors due to the proven and potential oil reserves, the oil transportation methods, and domestic issues as well.

In summary, the strategic importance of Kirkuk, if not resolved peacefully, will result in tremendous instability and violence, and the impact would be felt globally. Sixty-five percent of the world's oil reserves are in the Middle East, and one-tenth of that oil is in or around Kirkuk itself. This wealth must be used for the benefit of Iraq instead of the benefit of any ethnic group. If a consensus is reached on the disposition of Kirkuk, it should bring stability and peace to the region and to the world.

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<sup>99</sup> *Turkish Daily News*, "Barzani."

## **E. OTHER ISSUES THREATENING THE STABILITY OF IRAQ AND THE REGION**

The Iraqi Constitution has the potential to further damage the country's oil politics and fragile efforts to stop violence. In fact, many articles of the constitution actually increase tension and violence, which threaten the fair oil revenue distribution in that country.

### **1. Article 2<sup>100</sup>**

#### **a. First**

Islam is the official religion of the state and is a foundation source of legislation:

- No law may be enacted that contradicts the established provisions of Islam.
- No law may be enacted that contradicts the principles of democracy.
- No law may be enacted that contradicts the rights and basic freedoms stipulated in this constitution.

#### **b. Second**

This constitution guarantees the Islamic identity of the majority of the Iraqi people and guarantees the full religious rights to freedom of religious belief and practice of all individuals such as Christians, Yazidis, and Mandeans.

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<sup>100</sup> Export.gov, "Iraqi Constitution."

## **2. Article 4<sup>101</sup>**

### **a. First**

The Arabic language and the Kurdish language are the two official languages of Iraq. The right of Iraqis to educate their children in their mother tongue, such as Turkmen, Syriac, and Armenian, shall be guaranteed in government educational institutions in accordance with educational guidelines, or in any other language in private educational institutions.

### **b. Second**

The scope of the term “official language” and the means of applying the provisions of this article shall be defined by a law and shall include:

- Publication of the Official Gazette in the two languages;
- Speech, conversation, and expression in official domains, such as the Council of Representatives, the Council of Ministers, courts, and official conferences in either of the two languages;
- Recognition and publication of official documents and correspondence in the two languages;
- Opening schools that teach the two languages in accordance with the educational guidelines;
- Use of both languages in any matter enjoined by the principle of equality, such as bank notes, passports, and stamps.

### **c. Third**

The federal and official institutions and agencies in the “Kurdistan region” shall use both languages.

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<sup>101</sup> Export.gov, “Iraqi Constitution.”

**d. Fourth**

The Turkmen language and the Syriac language are two other official languages in the administrative units in which they constitute density of population.

**e. Fifth**

Each region or governorate may adopt any other local language as an additional official language if the majority of its population so decides in a general referendum.

**3. Article 7<sup>102</sup>**

**a. First**

Any entity or program that adopts, incites, facilitates, glorifies, promotes, or justifies racism or terrorism, or accusations of being an infidel (takfir) or ethnic cleansing, especially the Saddamist Ba'ath in Iraq and its symbols, under any name whatsoever, shall be prohibited. Such entities may not be part of political pluralism in Iraq. This shall be regulated by law.

**b. Second**

The state shall undertake the combat of terrorism in all its forms, and shall work to protect its territories from being a base, pathway, or field for terrorist activities. Article 2 states that "Islam is the official religion of the state and is a foundation source of legislation."<sup>103</sup> However, there are Christian and Jewish minorities in that country.

The three articles mentioned above are critically important regarding the ethnic and sectarian or ethnosectarian violence. Article 2 states

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<sup>102</sup> Export.gov, "Iraqi Constitution."

<sup>103</sup> Ibid.



that Islam is the official religion of the state and is a foundation source of legislation. This is dangerous enough to increase the violence in that country; however, the second part of Article 2 guarantees the full religious rights to freedom of religious belief and practice of all individuals such as Christians, Yazidis, and Mandeans. Additionally, Article 4 states that there is more than one official language; however, all of the Iraqi people know Arabic.

Article 2 and Article 4 cannot permit the collaboration of ethnic and sectarian groups to turn into unification due to serious problems discussed in the first chapter of this study. Even in this atmosphere, ethnic and sectarian groups need each other. In this context, secularism and democracy can play a role as thick as cement; however, Bellin indicates that five factors, which are not found in Iraq, are needed for a strong democracy: a level of economic development, ethnic homogeneity, strength of state institutions, a historical experience, and elite leadership.<sup>104</sup> This foundation can be used for the integration of different groups. If this base cannot be used well enough, Shi'a Arabs, Sunni Arabs, Christians, Jews, and others cannot live together; many different ethnic groups in that country cannot cohabitate; the people who speak different languages cannot reside together; and elusive peace cannot be reached due to many different political groups and economic differences.

On the other hand, the lack of Bellin's five factors needed for democracy demonstrates the inability to develop a nation state, and thus may necessitate the Iraqi creation of a constitutional nation. Nationalism, if properly created and fostered, could be the foundation for that nation.

Article 7 also has the potential to increase violence in Iraq since it prohibits terrorism without actually defining terrorism. Additionally, there is no global definition for terrorism. It is very clear that some people or groups are labeled as terrorists, while the same people are freedom fighters to others. Thus, a threat should be evaluated globally, and the international community should

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<sup>104</sup> Eva Bellin, "Contingent Democrats," *Political Science Quarterly* 119.4, (2004-2005); 601.

reach a consensus on this issue. In addition, rhetoric and terms are very important entities in the solution. Many people from many different countries, including officials and scholars, use the word “Islamists” to define terrorists. Neither Islam nor other religions are the source of terror. Wrong traditions, misperceptions, and misuse of religions may be the reasons for terror. Thus, Islam or any word for Islam, and other religions and the holy words of those religions must not be used to define terror or to describe the source of terror.

## **F. ASSESSMENT**

Sixty-five percent of the world’s oil is in the Middle East. This oil is the lowest cost oil in the world, and the entire world needs this oil. However, violence in Iraq threatens the political stability of the region and the politics of oil. In this context, constitutional problems discussed in this chapter are at the center of the problem.

Therefore, there should be an effort to find a reasonable compromise by holding meetings, such as those conducted in Baghdad and Sharma al-Sheikh, or direct talks among the representatives of all ethnic groups, as well as of the governments of Iraq, its neighbors, the U.S., and the other regional and global key actors. Otherwise, there will likely be violent communal conflict, the spreading of civil war, and more extremism and polarization. Moreover, the combination of the extremism and polarization, and early withdrawal of U.S. forces from Iraq, may lead to a larger, regional war in the Middle East.

In summary, first several actions on several issues are required to decrease the violence in Iraq and to allow for fair oil distribution. First, constitutional amendments, as described in Article 142, to give additional rights to the other ethnic and sectarian groups — besides Shi’a Arabs and Kurds — can decrease the tension. These amendments should be made, especially on Articles 111 and 112 since they appear to satisfy Kurdish and Shi’a Arab concerns and needs, but not those of others. “Furthermore, the constitution leaves open the possibility of abuse of economic power by the Kurds and Shi’a

Arabs. Additionally, the constitutions' lack of clarity on many oil issues such as production and distribution are also conducive to an atmosphere of corruption and the creation of failed rentier state."<sup>105</sup>

Second, the key issues for compromise on the Kirkuk issue can be found in a fair solution for the resettlement problem, conducting a fair census monitored by international observers, sharing the oil revenues of Kirkuk and other parts of Iraq fairly, and delaying the Kirkuk referendum for a certain period. This is because the strategic importance of an area, if not recognized, will result in tremendous instability and violence, and the impact could be felt globally. The wealth must be used for the benefit of the whole country, as well as the entire world, instead of only for the benefit of one ethnic or sectarian group. In addition, the problem should be resolved with a consensus to bring stability and peace to the region and to the world.

Third, as discussed above, other amendments, specifically in Articles 2, 4, and 7, are needed to bring about secularism, a better democracy, and Iraqi national identity for that country. Otherwise, there will be more extremism and less democracy in Iraq and in the rest of the region as well.

Fourth, the New Hydrocarbon/Oil Law should be discussed thoroughly and should offer equal rights to all Iraqi citizens, instead of just to the regions. Since, the oil and gas resources are the property of the Iraqi people.

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<sup>105</sup> Looney, "Economic Consequences of the New Iraqi Constitution," 374.

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### **III. WHICH FORM OF GOVERNMENT IS BETTER FOR IRAQ: A STRONG CENTRAL GOVERNMENT OR A FEDERAL SYSTEM?**

#### **A. INTRODUCTION**

Academics, Iraqi leaders and government officials, U.S. planners and military minds, as well as regional and global key countries all have different approaches to the oil issue. The main debates are centered on which type of government that is better for Iraq: a strong central government or a federal system. However, it is referred to as a “single federal state” in the new constitution.

There are different approaches among the various Iraqi interest groups. “Senior members of Iraq’s oil industry argue that a national oil company could reduce political tensions by centralizing revenues and reducing regional or local claims to a percentage of the revenue derived from production.”<sup>106</sup> However, some of the ethnic and sectarian groups’ leaders are suspicious and resist this proposal. They affirm the rights of local communities to have direct access to the inflow of oil revenue.<sup>107</sup> “Kurdish leaders have been particularly aggressive in asserting independent control of the oil assets, signing and implementing investment deals with foreign oil companies in northern Iraq. Shi’a Arabs are also reported to be negotiating oil investment contracts with foreign companies.”<sup>108</sup> Moreover, Sunni Arabs do not like the idea of federalism, and the two major Shi’a Arab leaders, Al-Hakim and As-Sadr, have differed from one other on the key issues of federalism and oil distribution.<sup>109</sup>

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<sup>106</sup> Baker and Hamilton, “The Iraq Study Group Report,” 22.

<sup>107</sup> Ibid.

<sup>108</sup> Ibid.

<sup>109</sup> Cordesman, “Iraq’s Sectarian and Ethnic Violence and the Evolving Insurgency: Developments through late-January 2007,” 4.

There is also diversification between the U.S. and regional countries. The U.S. Department of Defense defines the type of government clearly in its proposed timetable to Congress, “such a timetable could lead to changes in the political dynamic in Iraq, providing support for the government’s own long-term vision: a united, federal, and democratic country, at peace with its neighbors and itself.”<sup>110</sup>

Turkey has a different policy than the U.S. “Since 1991, Turkish governments had pursued a policy that aimed to preserve the territorial integrity and unity of Iraq.”<sup>111</sup> Abdullah Gül, Deputy Prime Minister and Minister of Foreign Affairs of Republic of Turkey, explained Turkey’s policy as the following idea, “it is up to the Iraqi people, of course, but what we want to see, that is one Iraq, Iraq’s territorial integrity and political unity should be preserved. Otherwise, while we think that the dark days are close, they will start over there. We think that the Iraqis will allow their countries to be separated. Well, I mean, within Iraq, there would be another war. So therefore, we have to encourage them to be all together, the Iraqis, their country. They will share their wealth. All of it is for them, and it is enough for all of them. But, it is up to them.”<sup>112</sup>

Iran’s policy is not as clear as that of Turkey. Iran’s Defense Minister, Brigadier General Mostafa-Mohammad Najjar, explained that since the very beginning of Iraq’s crisis, the Islamic Republic of Iran has made optimum efforts to empower the popular government of Iraq and help with the establishment of peace, tranquility and stability in that country.<sup>113</sup> However, many experts, including Joost Hiltermann, the Middle East program director of the International

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<sup>110</sup> U.S. Department of Defense, Quarterly Report, 2006, 6,9.

<sup>111</sup> Fawn and Hinnebusch, *The Iraq War*, 204.

<sup>112</sup> Nancy Roman, “A Conversation with Mr. Abdullah Gül,” *Council on Foreign Relations*, June 7, 2005, [http://www.cfr.org/publication/8189/conversation\\_with\\_he\\_mr\\_abdullah\\_gul.html?breadcrumb=%2Fbios%2F5850%2Fnancy\\_e\\_roman](http://www.cfr.org/publication/8189/conversation_with_he_mr_abdullah_gul.html?breadcrumb=%2Fbios%2F5850%2Fnancy_e_roman) (Accessed February 3, 2007).

<sup>113</sup> *Tehran Times*, “Iran’s strategy is to promote stability in Iraq: Najjar,” February 4, 2007, <http://www.tehrantimes.com/Description.asp?Da=2/4/2007&Cat=2&Num=006> (Accessed February 3, 2007).

Crisis Group, say that Iran supports Shi'a Arabs and desires federalism within Iraq. "Tehran wants to establish good relations with its one-time enemy, keep the government in Baghdad weak, and prevent a Saddam-like strongman from seizing power."<sup>114</sup>

Scholars are also divided on the issue. Some scholars argue that partitioning or federalism is a historical reality and should not be seen as a problem. "Historical Iraq was a place of three semi-independent parts — the Kurdish north, the Sunni Arab center, and the Shi'a Arab south — within the loose framework of the Ottoman Empire. It is the centralized Iraq, starting with Britain's creation of the modern state in 1921-1923 and reaching its nadir in nearly three decades of Saddam's dictatorship, which has failed and should be allowed to die."<sup>115</sup> Additionally, Kamp, O'Hanlon and Unikewicz argue that federalism is necessary due to the current situation.<sup>116</sup> On the other hand, some other scholars, namely Cordesman<sup>117</sup> and Cogan,<sup>118</sup> indicate possible results of the partition, especially the effects of increasing violence. "A strategy of dividing Iraq, however, is virtually certain to make things worse, not better, and confront the U.S. with massive new problems in an area with some 60% of the world's proven oil reserves and 37% of its gas. Even if one ignores the fact that the US effectively broke Iraq, and its responsibilities to some twenty-eight million Iraqis, a violent power vacuum in an already dangerous region is not a strategy, it is simply an abdication of both moral responsibility and the national interest."<sup>119</sup>

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<sup>114</sup> Lionel Beehner, "Iran's Involvement in Iraq," *Council on Foreign Relations*, January 31, 2007, [http://www.cfr.org/publication/12521/irans\\_involvement\\_in\\_iraq.html](http://www.cfr.org/publication/12521/irans_involvement_in_iraq.html) (Accessed February 4, 2007).

<sup>115</sup> Gareth Stansfield, "Divide and Heal," *Prospect Magazine* 122, (May 2006), [http://www.prospect-magazine.co.uk/article\\_details.php?id=7437](http://www.prospect-magazine.co.uk/article_details.php?id=7437) (Accessed February 13, 2007).

<sup>116</sup> Kamp, O'Hanlon and Unikewicz, "The State of Iraq."

<sup>117</sup> Cordesman, "Dividing Iraq," 4.

<sup>118</sup> Cogan, "U.S. Democrat Biden."

<sup>119</sup> Cordesman, "Dividing Iraq," 2.

Byman and Pollack also recommend that the U.S. government avoid active support for the partition of Iraq, at least for now, due to eruption of a full-scale civil war.<sup>120</sup>

Literature reviewed above shows that the one core issue of sharing the country's oil revenues is federalism. However, there are many intermingled problems related with the issue. At this point, as the Iraqi Study Group (ISG) report confirms, "there is no magic formula to solve the problems of Iraq."<sup>121</sup> "As such, the questions that now remain for the country and its neighbors are whether Iraq can survive as a unified entity or if it will descend into further chaos and eventually cease to exist as different groups, Kurds, Shi'a Arab and Sunni Arab, form their own separate nation states. The consequences, as the ISG group lays out, "could be severe. A slide toward chaos could trigger the collapse of Iraq's government and a humanitarian catastrophe."<sup>122</sup>

In this context, this chapter discusses this core issue in many ways. Specifically, it discusses the state formation and democratic history, ongoing war and promoting democracy efforts, main problems, and ethnic and sectarian violence regarding the federalism issue and oil politics. Additionally, this chapter identifies the key factors leading to success or failure.

## **B. STATE FORMATION OF IRAQ: HEGEMONIC RULERS AND THE LACK OF DEMOCRACY EXPERIENCE**

It is important to discuss the history of the state formation and democracy in Iraq. Many of the economic problems and violence facing Iraq today that are affecting oil politics stem from the state formation and lack of democracy experience. Additionally, a detailed study on those issues may help to solve existing problems, including how to share the oil revenues fairly.

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<sup>120</sup> Byman and Pollack, "Things Fall Apart."

<sup>121</sup> Baker and Hamilton, "The Iraq Study Group Report," 22.

<sup>122</sup> Business Monitor International, "The Iraq Business Forecast Report," (Q2, 2007), 27.



Iraq is a revolutionary state and a successor of the Ottoman Empire. Additionally, it experienced decades of European rule during the twentieth century.<sup>123</sup> Despite the European influence, the state formation is quite different from Europe. The social groups that constitute the state, the institutions, and the oil have influenced this dissimilarity and the state formation of that country. On the other hand, the reverse situation is also correct — the state formation has affected the social groups and the institutions in Iraq.

Military coups and/or revolutions are also important events in Iraq's history in this century, namely the Iraqi revolutions of 1920 and 1958. Some Arab, Western, or Soviet scholars viewed its armed forces as a modernizing instrument, and a major agent for change, especially because the initiators of these coups came from a rural area.<sup>124</sup> Specifically, the Ba'athist intervention created a state controlled economy, strong industrialization, secularism, and political participation. It also developed an important legislative and institutional apparatus both at the local and national levels, especially in the initial years.<sup>125</sup> However, the revolutionists mostly came from rural areas and had little understanding of the economy, used the salaried middle-class who was close to them, and then new main urban beneficiaries were created.<sup>126</sup> "They also created landlords, and strong tribes, in relation to their roots."<sup>127</sup> "In the early years after the intervention, the rulers declared to create more participatory state, but after that, they attempted to limit the participation, and described as a process of 'controlled democracy'."<sup>128</sup> Thus, the single party (Ba'ath) system occurred in Iraq.

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<sup>123</sup> Lisa Anderson, "The State in the Middle East and North Africa," *Comparative Politics* 20.1, (October 1987); 4.

<sup>124</sup> Hanna Batatu, *The Egyptian, Syrian, and Iraqi Revolutions: Some Observations on Their Underlying Causes and Social Character* (Center for Contemporary Arab, 1984), 4.

<sup>125</sup> Elizabeth Picard, "Arab Military in Politics: from Revolutionary Plot to Authoritarian State," in *The Arab State*, ed. G. Luciani (Berkeley: University Press, 1990), 189.

<sup>126</sup> Anderson, "The State," 277.

<sup>127</sup> Ibid.

<sup>128</sup> Picard, "Arab Military," 200.

Personal ties also effected state formation and institutions. “Many researchers have demonstrated that personal ties and political patronage are important in the politics and administration of Iraq.”<sup>129</sup> It is clear that the rural elites of the revolutionary state created a bureaucratic state without powerful domestic competitors, and they used personal ties as a repression and patronage tool of this bureaucracy.

The ethnic, sectarian, regional, and tribal differences also have had effects on the state formation and institutions of Iraq. Indeed, the variety of the people created discrimination among the groups in the oil-rich country. Moreover, this discrimination made the ruling families and their ethnic groups the clear winners, and strengthened their positions.<sup>130</sup>

Arab Nationalism with Western effects and Arab-Israeli Wars are also related to the structural changes in one way or another, especially with the politics and economy of Iraq. “The Arabs had been roused from centuries of political lethargy, first by American teachers and missionaries, then by the revolution of the Young Turks, and finally by the blandishments of Europeans during World War I.”<sup>131</sup> “In fact, from the West they learned about riots, freedom, and national self-determination.”<sup>132</sup> In those conditions, instead of coming together the Arabs found themselves being pulled farther apart. However, for the Arab-Israeli Wars, some but not all of them came together for a short duration.

Finally, there are many problems stemming from the state formation and institutions as well. There are also ethnic, sectarian, tribal, and family discriminations and conflicts, which cause violence and may lead to additional violence in the future. In addition, hegemonic rulers did not use democratic rules to bring people together in means of improved governance, political participation,

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<sup>129</sup> Anderson, “The State,” 7.

<sup>130</sup> Micheal Herb, *All in the Family: Absolutism, Revolution, and Democracy in the Middle Eastern Monarchies* (Sunny Series in Middle Eastern Studies) (State University of New York Press, 1999), 168.

<sup>131</sup> Karl Yambert, *The Contemporary Middle East* (Westview Press, 2006), 40.

<sup>132</sup> Ibid.

pluralism, human rights, political reforms, and regional security by their own dynamics. That is to say, they must realize a form of democracy that needs to be followed by the new rulers. In this context, the process of democratic transition and the necessities for a consolidated and strong democracy in that country are important. At this point, one should know the necessities of a consolidated and strong democracy as a first step.

Robert Dahl offers the most generally accepted definition of what he terms the “procedural minimal” conditions that must be present for a modern political democracy to exist.<sup>133</sup> These conditions are necessary for a starting point for differentiating between strong or consolidated democracies and weak or highly restricted democracies.<sup>134</sup> The conditions are as follows:

- Control over government decisions about policy is constitutionally vested in officials elected by citizens.
- Elected officials are chosen in frequent and conducted elections in which coercion is comparatively uncommon.
- Citizens have a right to express themselves without danger of severe punishment on political matters broadly defined.
- Citizens have a right to seek out alternative and independent sources of information. Moreover, alternative sources of information exist and are protected by law.
- Citizens also have the right to form relatively independent associations or organizations, including independent political parties and interest groups.
- Practically all adults have the right to run for elective offices.<sup>135</sup>

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<sup>133</sup> Patrick O’Neil and Ronald Rogowski, *Essential Readings in Comparative Politics* (Norton and Company, Inc., 2004), 224.

<sup>134</sup> Timothy Lim, *Doing Comparative Politics* (Lynn Rienner Publishers, Inc., 2006), 163.

<sup>135</sup> Robert A. Dahl, “What Political Institutions Does Large Scale Democracy Require?” *Political Science Quarterly* 120.2, (2005); 188.

On the other hand, Bellin indicates that five factors are needed for a strong democracy:

- Level of economic development,
- Ethnic homogeneity,
- Strength of state institutions,
- Historical experience, and
- Elite leadership.<sup>136</sup>

With the help of the definitions mentioned above, many scholars examine the democratic transition around the world over the past half century historically and comparatively. In this context, Liz and Stepan look at the Balkans, Eastern Europe, and Latin America, while Bellin looks at Japan, Germany, Haiti, and Bosnia by comparing them to Iraq. In addition, Bellin, Brancati, Benomar, and Berman examine the democratic transition and consolidated democracy in Iraq by using some of these criteria comparatively. Berman and Bellin also indicate that Iraq is lacking a democratic history, and it is a multi-ethnic, multi-religious, and multi-sect country. Moreover, they discuss that Iraq is suffering from economic problems.

Some of the cases above, namely Germany and Haiti, are incomparable to Iraq because the state formation experience and the conditions discussed are not similar in those countries. In addition, some of the criteria mentioned above cannot be used for the Iraq case. In this context, this chapter examines Iraq as a unique case in which oil politics are directly affected by an ongoing war, the idea of promoting democracy, ethnic and sectarian conflicts and violence in that country, and the Global War on Terror.

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<sup>136</sup> Bellin, "Contingent Democrats," 601.

### **C. THE IRAQ WAR, THE GLOBAL WAR ON TERROR AND PROMOTING DEMOCRACY**

Recent history shows that the Iraq War and the Global War on Terror (GWOT) are new types of struggles that have the potential to last a decade or more.<sup>137</sup> Success in these wars depends on controlling ethnic and sectarian violence, and on sharing oil revenues fairly. In this manner, it is clear that international support is needed in order to achieve success. In this long process, NATO is in Afghanistan to support the U.S. However, the international community is still questioning the need and strategy for the Iraq War and the GWOT.

In addition, many people in the region believe that the U.S. had no justifiable reason to invade Iraq, and that the invasion violated international law. Those people also address that one of the main reasons for this invasion is the U.S.'s Middle East policy which is under the influence of Israel, and the Israel Lobby in the U.S. Mearsheimer and Walt also state that most of the decision makers of these wars were pro-Israel individuals and in the Lobby.<sup>138</sup> "In fact, pressure from Israel and the Lobby was not the only factor behind the U.S. decision to attack Iraq in March 2003, but it was a critical element."<sup>139</sup> In this context, it can be said that many groups use this critical element in combination with many problems facing the U.S., Iraq, and the Middle East to exploit the current situation. This is especially the case with Al-Qaeda, other terrorist organizations, and "political Islamists" who use this critical element to increase polarization and extremism which have negative effects on relationships among the ethnicities and sects in Iraq, as well as religions and countries in the region.

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<sup>137</sup> Thomas X. Hammes, *The Sling and The Stone: On War in the 21st Century* (Zenith Press, 2006), 168.

<sup>138</sup> John J. Mearsheimer and Stephen M. Walt, "The Israel Lobby and US Foreign Policy," (working paper, John F. Kennedy School of Government, Harvard University, March 2006), 32.

<sup>139</sup> *Ibid.*, 30.

Thus, it can be said that polarization and extremism increase violence in Iraq and in the Middle East, and raise racist, anti-U.S., and anti-Semitic approaches, which turns the Iraq question into a U.S.-Muslims and Israel-Muslims problem. Many people in the region also see the war with Iraq as the first step in an ambitious campaign to remake the Middle East.<sup>140</sup> Additionally, many people think that as a second step there are two threats ahead of them. These threats consist of a term — “moderate Islam” — used as a model for Muslim and predominantly Muslim populated countries, and a project — “The Greater Middle East Project” — used to promote democracy in the region.

In this context, most secular people believe that the “moderate Islam” model is a threat to secularism, while many Muslims think the same for Islam, since the Koran has never been changed and there are no “moderate versions,” “regular versions” or “fundamentalist versions.” The Koran has only one type, which was sent by God.

Many people also think that “The Greater Middle East Project” is a threat for the region. Those people believe that the main idea of this project is to change the borders of many countries, and that the changes will never help Iraq. Keeping this in mind, two dangerous scenarios discussed among the people are “to divide Iraq into three different countries,” and “to create an independent Kurdish state by dividing Turkey, Iran, Iraq, and Syria.”

On the other hand, public opinion polls confirm that people from regional countries, including those from Turkey, a strong ally of the U.S., have an increasingly unfavorable view of the U.S. Middle East policy regarding support of the Iraq War and the GWOT. Figure 3 illustrates the Turkish public opinion on this matter.

According to the results of the polls, people believe that: the U.S. has an image problem due to the Iraq War and the GWOT; the reasons for the current

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<sup>140</sup> Mearsheimer and Walt, “The Israel Lobby,” 36.

conditions in Iraq stem from the U.S.; the Israel Lobby has a very big effect on the invasion of Iraq; and federalism is not a good solution for Iraq.<sup>141</sup>

People also believe that the enemies in the GWOT are only the enemies of the U.S. and Israel; however, the enemies in the GWOT are dangerous terrorist organizations from all over the world.<sup>142</sup> In this context, the Turkish people want to know why no global or widely accepted definitions for terror, terrorist, and terrorism exist. They also want to know why PKK/Kongra-Gel — a separatist terrorist organization with a strength of 4,500-5,000 active terrorists, 3,000-3,500 in Iraq alone, and labeled as a terrorist organization by the U.S. — is not the enemy in the GWOT, while Hezbollah, Al-Qaeda and their affiliated terrorist organizations are branded as the enemies in this war.

The results of the polls also reveal that the current situation increases a lack of confidence with the U.S. in the region. However, the U.S. needs international support in its long lasting struggle. Without international support, namely the support that comes from regional and global key actors, the U.S. cannot promote democracy, cannot win the GWOT, and cannot change the chaotic environment in Iraq.

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<sup>141</sup> Pew Global Attitudes Project, 2002, [www.people-press.org](http://www.people-press.org) (Accessed May 25, 2007); Pew Global Attitudes Project, 2006, [www.pewglobal.org](http://www.pewglobal.org) (Accessed May 25, 2007); PIPA/Knowledge Networks Poll, 2003, [www.pipa.org](http://www.pipa.org) (Accessed May 25, 2007); Verso Policy Research Center (Verso Siyasal Arastirmalar Merkezi) Polls, 2004, [www.voanews.com/turkish/archive/2003-08/a-2003-08-02-8-1.cfm](http://www.voanews.com/turkish/archive/2003-08/a-2003-08-02-8-1.cfm) (Accessed May 25, 2007); International Strategic Research Organization (Uluslar Arasi Staratejik Arastirmalar Kurumu) Poll, 2005, [www.usak.org.uk](http://www.usak.org.uk) (Accessed May 25, 2007).

<sup>142</sup> Ibid.

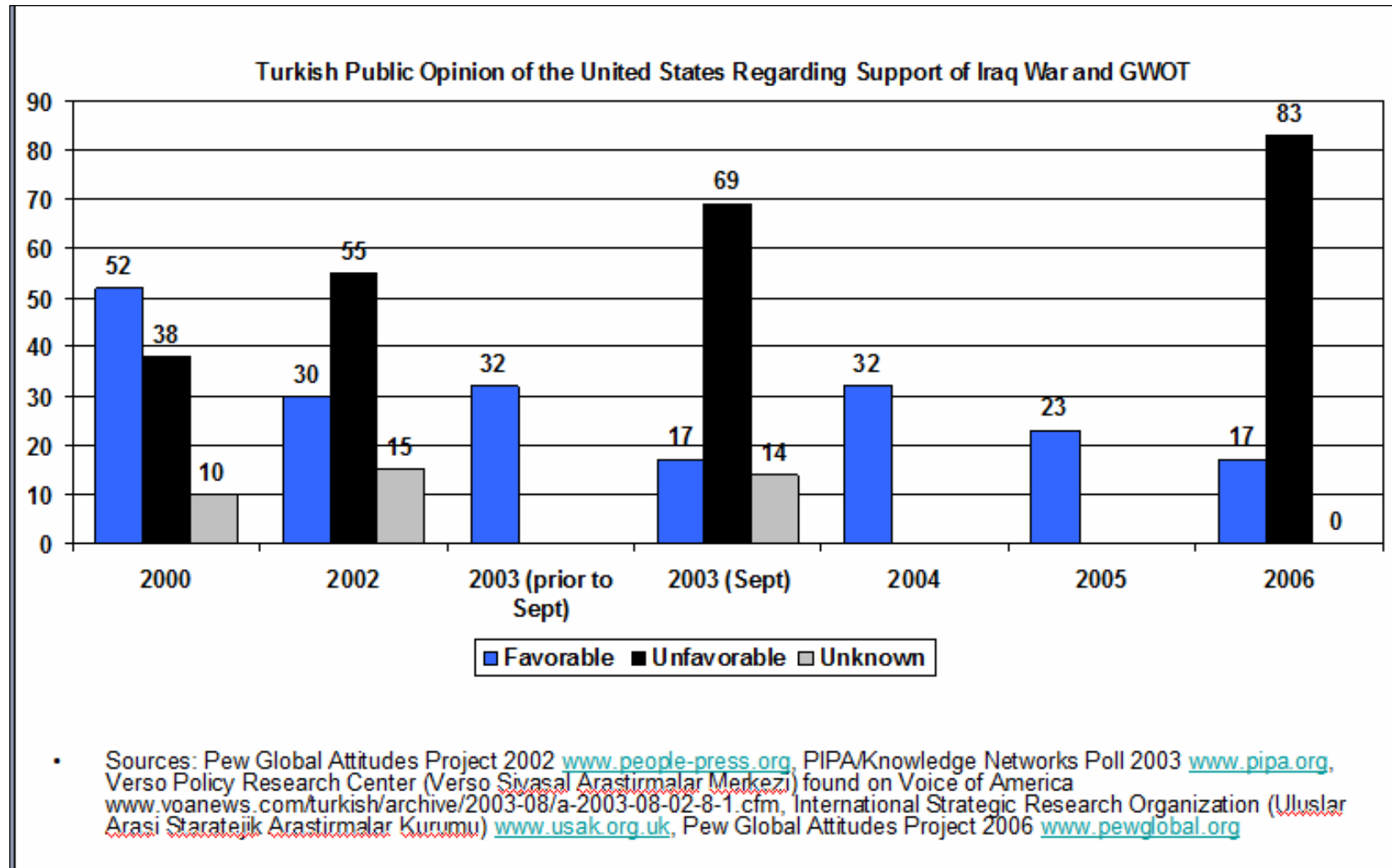


Figure 3. Turkish Public Opinion of the U.S. Regarding the Support of the Iraq War and the GWOT



## **D. FEDERALISM AS A THREAT**

Federalism, especially in combination with the chaotic environment discussed above, is a big threat to success in the Iraq War and the GWOT, and for promoting democracy in that country. There are many problems that cause federalism, causing it to be viewed as a threat. These problems, which will most likely cause an increase in ethnic and sectarian violence and may cause the collapse of the state, will be discussed in more detail later in this chapter. However, it is difficult to fully discuss these problems in the limited pages of this thesis.

### **1. Difficulties in Designing an Economic Strategy for Iraq**

It is difficult to design an economic strategy for Iraq, as the country is not fully ready for a post-war economy since the perspective of the country's economy reflects a failed state, and a transitional, rentier, post-conflict, failed take on the economy.<sup>143</sup> In this environment, a strong central government may control the economy by controlling the revenue, since it does not distribute the money to each religious, ethnic, or sectarian group. Otherwise, poor states will be potential risks to the stability.

### **2. Ethnic Groups, Sectarian Groups, Tribes, and Extended Families vs. National Identity**

It is not easy to divide the cities and the oil areas among the religious, ethnic, sectarian, tribal, and extended family groups. In this turmoil, there is a big question of how the nation's wealth is distributed in a federalism solution. "This has not only opened the door for over-ambitious, ethnically-based political

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<sup>143</sup> Looney, "Socio-Economic Strategies," 23.

agendas, but for rivalry for the wealth that should belong to all Iraqis.”<sup>144</sup> It also failed to stress the only glue, national identity, that holds that society together.<sup>145</sup>

### **3. Ethnically Heterogeneous Cities and No Clear Lines Among the Groups**

Federalism creates neat partition lines; however, these lines are impossible because few regions in Iraq are ethnically, sectarian or religiously homogeneous. “The governorates of Diyala, Mosul, Salahaddin, Hilla, Kirkuk, and Basra are intermixed or have large minorities scattered throughout each province. In Baghdad, with probably a quarter of Iraq's population, the ethnic and sectarian groups are inextricably interwoven.”<sup>146</sup>

### **4. Organization of Iraqi Security Forces (ISF)**

ISF is based on ethnic and sectarian groups and it does not have a national identity. In fact, the units are based on sectarian or ethnic groups; however, most of the commanders of these units are not appointed from the same sect or ethnic group with the troops that they command. In this manner, it is difficult for a commander to command his troops.

Besides the ISF, there are also ethnic and sectarian militia groups which have the potential to increase the tension in Iraq. Hamid Afandi, the head of Peshmerga for the Kurdistan Democratic Party (KDP), one of the two major Kurdish groups, said, “if we can resolve this by talking, fine, but if not, then we will resolve it by fighting. We have 7,000 Peshmerga in Kirkuk, as well as 3,000 in Mosul.”<sup>147</sup>

“In this context, federalism increases the militia problem, and threatens the security. Since, with no sign of discernible progress toward national reconciliation

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<sup>144</sup> Gül, “The East's Problem.”

<sup>145</sup> Ibid.

<sup>146</sup> Rahim Al-Rand, “Partition is not a Solution”, The Washington Post, October 29, 2006.

<sup>147</sup> *Turkish Daily News*, “Hamid Afandi.”

on the horizon, there is an ever-increasing risk that U.S.-trained Iraqi soldiers and police will be used by Shi'a Arabs and Kurds to implement narrow parochial political agendas that exacerbate sectarian strife in Iraq."<sup>148</sup>

## **5. Oil Areas**

The oil map below in Figure 4 clearly indicates that areas that are predominantly Sunni Arab do not have enough oil. This is a very big risk in the federalism choice. In fact, the map shows that only the strong central government can distribute the revenues equally.

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<sup>148</sup> Jeremy M. Sharp, "The Iraqi Security Forces: the Challenge of Sectarian and Ethnic Influences," *Congressional Research Service Report for Congress* (CRS Order Code RS22093), January 18, 2007, 1.

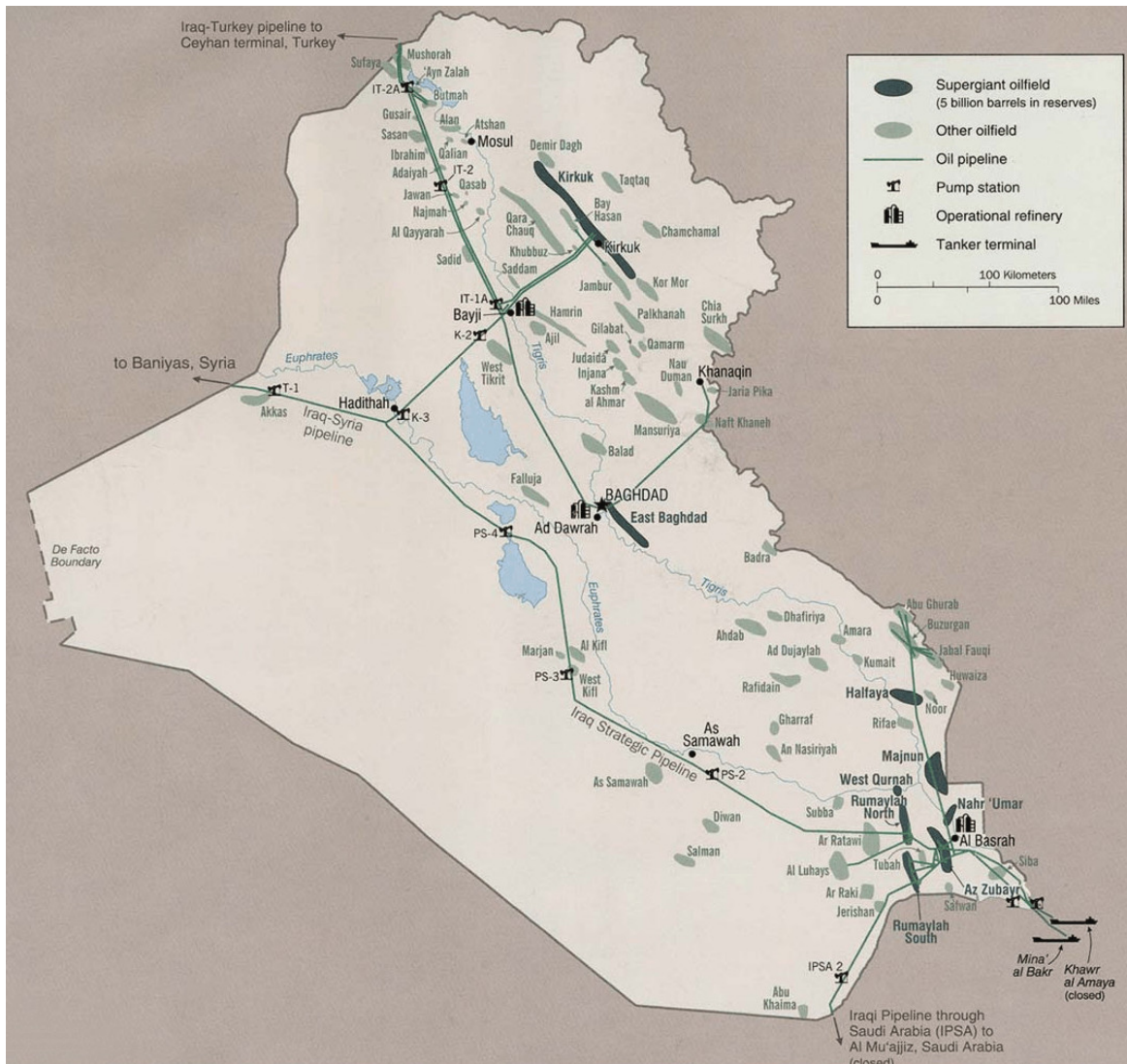


Figure 4. Oil Map of Iraq<sup>149</sup>

## 6. Constitutional Problems

Besides the articles of the Iraqi Constitution previously discussed in Chapter II, Articles 117, 119, and 121 also have problematic areas, which causes federalism to be viewed as a threat.

<sup>149</sup> Energy Information Administration, "Iraq Oil Map," [http://www.eia.doe.gov/emeu/security/esar/esar\\_bigpic.htm](http://www.eia.doe.gov/emeu/security/esar/esar_bigpic.htm) (Accessed February 25, 2007).

**a. Article 117<sup>150</sup>**

(1) Second: This Constitution shall affirm new regions established in accordance with its provisions.

**b. Article 119<sup>151</sup>**

One or more governorates shall have the right to organize into a region based on a request to be voted on in a referendum submitted in one of the following two methods:

(1) First: A request by one-third of the council members of each governorate intending to form a region.

(2) Second: A request by one-tenth of the voters in each of the governorates intending to form a region.

**c. Article 121<sup>152</sup>**

(1) First: The regional powers shall have the right to exercise executive, legislative, and judicial powers in accordance with this constitution, except for those authorities stipulated in the exclusive authorities of the federal government.

(2) Second: In case of a contradiction between regional and national legislation in respect to a matter outside the exclusive authorities of the federal government, the regional power shall have the right to amend the application of the national legislation within that region.

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<sup>150</sup> Export.gov, "Iraqi Constitution."

<sup>151</sup> Ibid.

<sup>152</sup> Ibid.

(3) Third: Regions and governorates shall be allocated an equitable share of the national revenues sufficient to discharge their responsibilities and duties, but having regard to their resources, needs, and the percentage of their population.

(4) Fourth: Offices for the regions and governorates shall be established in embassies and diplomatic missions, in order to follow cultural, social, and developmental affairs.

(5) Fifth: The regional government shall be responsible for all the administrative requirements of the region, particularly the establishment and organization of the internal security forces for the region such as police, security forces, and guards of the region.

According to Articles 117 and 119, new regions can be established by the governorates. By the help of these two articles, and by the help of federalism, each religious, sectarian, and ethnic group will likely divide within themselves. since there is no unity within those groups. Every group has its own subgroups, tribes, and extended families.

According to Article 121, Iraq is a loose type of federation. Additionally, the “regional governments” have their own security forces. Under these circumstances, it is easy to break down into a confederation or a more chaotic environment. On the one hand, Iraq has a tribal society that consists of many ethnic and sectarian groups, tribes, and extended families; and on the other hand, the Iraqi War has indeed become a militia war, and worse, the militias in Iraq resemble insurgent groups in advanced stages of development.<sup>153</sup>

## **7. The Kirkuk Issue**

As discussed in Chapter II of this study, as all eyes are turned toward efforts to stabilize Iraq, the conflict that has been percolating in Kirkuk remains

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<sup>153</sup> Andrew Exum, “Iraq as a Militia War,” *The Washington Institute Policy Watch*, no. 1182, (January 12, 2007).

dangerous and dangerously neglected.<sup>154</sup> That struggle is equal parts street brawl over oil riches, ethnic competition over identity between Kurdish, Turkmen, Arab and Assyrian-Chaldean communities.<sup>155</sup> However, this city cannot be divided among the groups since the groups are interwoven. In this context, only the strong central government can control this city by distributing the revenues equally.

#### **8. Dreams of the Kurds Probable Results of these Dreams, and Control of Basra among the Shi'a Arab Groups**

More than ninety percent of Iraq's government revenues come from oil exports. The Sunni Arab west has no developed oil fields and thus would have no oil revenues. In this situation, Kurds have many dreams of taking the biggest part of oil revenues to establish an independent government. In this context, as a first step, the Kurds are moving systematically to increase their control of Kirkuk to guarantee annexation of all or most of the city and province into the "KRG" after the constitutionally mandated referendum scheduled to occur no later than December 31, 2007.<sup>156</sup> "In fact, the Kurds want the northern oil fields, but have no legitimate claim to them and no real way to export the oil they produce. In addition, control of Basra would also be an issue, with various Shi'a Arab groups looking to separate and take control of the oil in the south."<sup>157</sup>

#### **9. Current and Potential Pipelines and their Security Problems**

Figure 5 clearly shows that the current pipeline system has security problems in today's chaotic atmosphere. Federalism will likely increase this

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<sup>154</sup> International Crisis Group, "Iraq and the Kurds," 1.

<sup>155</sup> Baker and Hamilton, "The Iraq Study Group Report," 1.

<sup>156</sup> National Intelligence Council, "Prospects for Iraq's Stability."

<sup>157</sup> Anthony H. Cordesman, "Three Iraqs Would be One Big Problem," *The New York Times*, May 9, 2006.

problem since many different religious, ethnic, sectarian, tribal, and extended family groups live near these pipelines. This would likely be the case with any future potential pipelines as well.

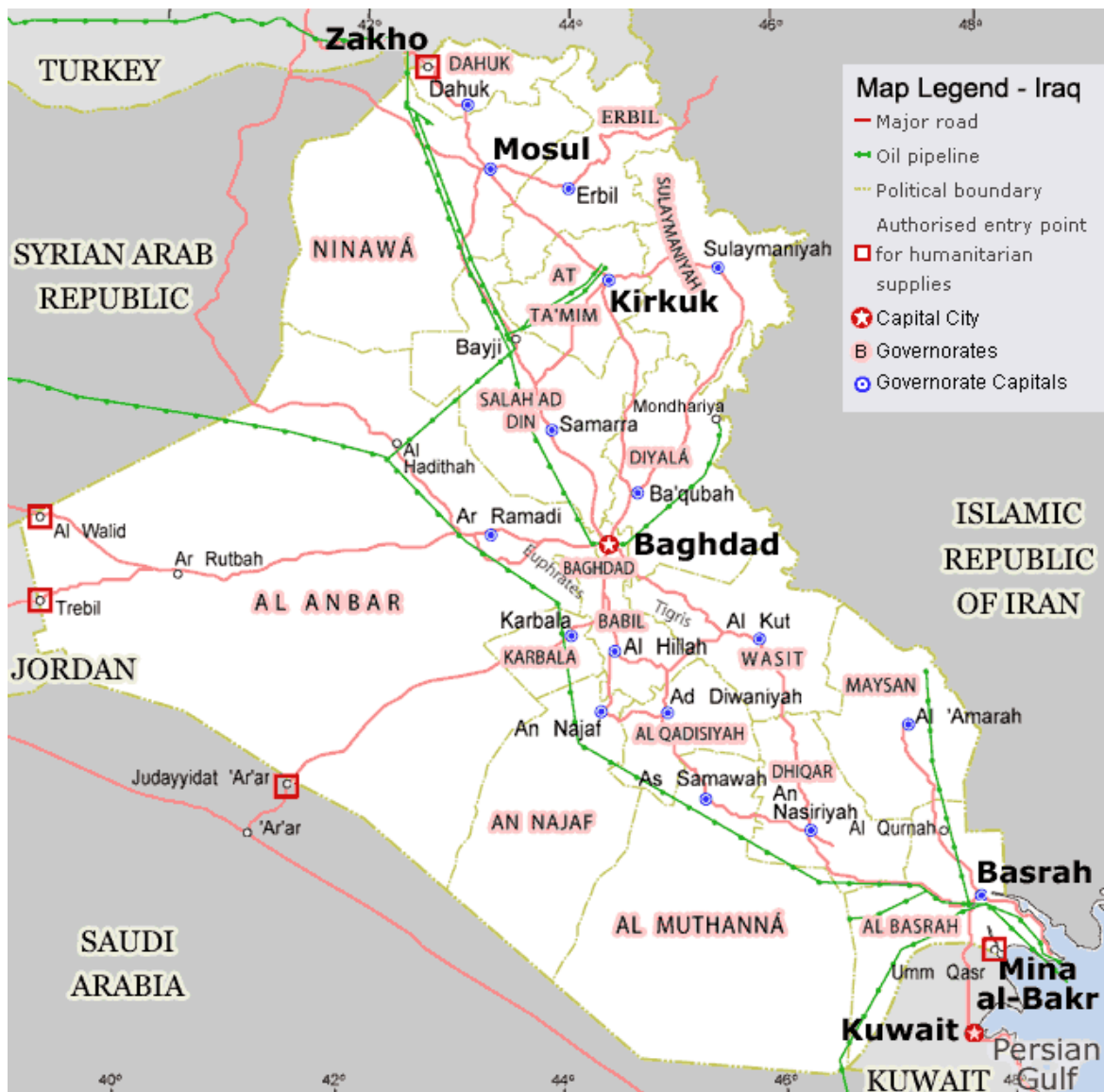


Figure 5. Pipelines in Iraq<sup>158</sup>

<sup>158</sup> Energy Information Administration, "Iraq Oil Pipelines," <http://www.eia.doe.gov/emeu/cabs/Iraq/Oil.html> (Accessed February 25, 2007).



## **10. The Need for New Oil Refineries**

Iraq has only three big refineries located in Baiji, Basra, and Daura, all of which still have a lack of capacity and security.<sup>159</sup> “Additionally, as well as being costly, the supply of imported fuels cannot be relied on. Deliveries from Syria and Jordan, which border on the volatile Anbar governorate, have come to a halt because of the instability.”<sup>160</sup> In the chaotic environment, it is also difficult to build new refineries, which the federal states have an extreme need for. Thus, it will be a big problem ahead for federalism.

## **11. The Need for and the Results of Foreign Aid**

The United States and many other countries give considerable aid to Iraq. The main reason of this aid is to increase the country’s economic growth, reduce poverty, and to promote democracy in the country. However, it is not easy to reach this goal in a federal system for several reasons.

First, there is a risk that foreign aid may create new warlords with the money given to the local criminal leaders instead of the central government. Additionally, If the money is controlled by one of the extended families/tribes/clans/ethnic or sectarian groups, it could create more extremism and terrorism instead of decreasing terrorism. Foreign aid may also be controlled by the terrorists or may be used to benefit them. Since there is no global definition of terrorism, one or more states may incline to define the terrorists as the freedom fighters, and use this money for the benefit of terrorists. In this context, corruption may occur among these people, and the money may go to the wrong place.

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<sup>159</sup> Energy Information Administration, “Iraq Oil Pipelines.”

<sup>160</sup> al-Bayati, “Iraq Has Plenty of Oil.”

## **E. ASSESSMENT**

One of the major debates on the fair oil distribution in Iraq centers on the type of government by asking which form of government is better for that country: a strong central government or a federal system. However, the current form of government is defined as a “single federal state” in the Iraqi Constitution.

Ideas and opinions on this issue vary among the different Iraqi and international groups and among scholars as well. However, this study strongly recommends the strong central government system to help cease the ongoing conflicts in that country and to distribute the oil revenues equally. In this context, constitutional amendments are needed to replace the single federal state, which is a kind of loose federation, or resembles a type of confederation with a strong central government in the Iraqi Constitution.

Otherwise, federalism, in combination with the ongoing and potential problems discussed above, will likely cause an increase in ethnic, sectarian, and ethnosectarian conflicts in that country. There are many religious, ethnic, sectarian, tribal, and extended family groups who lack democracy experience, but are eager to run the government or governmental institutions to gain the many advantages for their own groups in that country. Additionally, in order to bring people together in terms of improved governance, political participation, pluralism, human rights, political reforms, and local security, more democratic rules are needed in that country.

On the other hand, despite the extreme conditions discussed above, the people of that country need each other; however, there is still only the collaboration of groups, not a national identity. In this light, in addition to democracy, secularism can also play a role as the foundation for the integration of different groups under a national identity in a strong central government type. If this basis cannot be utilized properly, many different groups in that country will not likely be able to cohabitate, the people who speak different languages will not likely reside together, and elusive peace will not likely be reached.

Additionally, a strong central government is needed for the destiny of holy cities and oil-rich cities. Many cosmopolitan cities are important for various religions and sects, and many other cities are important for oil-richness, but these cannot be partitioned among various groups.

In summary, in combination with other problems, this increases ethnic and sectarian violence and may lead to the collapse of the state. Thus, federalism is a big threat for the stability of Iraq and for the stability of the entire region as well.

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## **IV. DIRECT DISTRIBUTION SYSTEM – DIRECT PAYMENTS TO THE POPULATION**

### **A. INTRODUCTION — DESCRIPTION OF THE SYSTEM**

The United States, the international community and, much more importantly, the Iraqi Government and the Iraqi people continue to debate on the country's future: specifically, on how to handle its vast oil wealth.<sup>161</sup> In response to these arguments, there are proposals to redistribute a portion of oil revenues directly to the population on a per capita basis. In this context, scholars argue that these proposals have the potential to give all Iraqi citizens a stake in the nation's chief natural resource. Scholars also indicate that a direct distribution system can bring equal distributions for every man and woman, and help to heal the insurgency problem.<sup>162</sup> On the other hand, they emphasize that it would take time to develop a fair distribution system.<sup>163</sup>

Though these proposals vary, they mostly stem from the systems used in the U.S. state of Alaska and the Canadian province of Alberta. In other words, direct distribution arrangements have been in place in both Alaska and Alberta. The older of these — the Alaska Permanent Fund — has been in place since 1976 and is widely perceived as a success. The fund receives about 25% of the state's oil revenues (along with other discretionary transfers from the state budget) and annually distributes a share of the accrued interest to all state citizens in the form of a dividend.<sup>164</sup>

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<sup>161</sup> Nancy Birdsall and Arvind Subramanian, "Saving Iraq from its Oil," *Foreign Affairs*, (July-August 2004); 1, <http://www.foreignaffairs.org/20040701faessay83408/nancy-birdsall-arvind-subramanian/saving-iraq-from-its-oil.html> (Accessed September 14, 2007).

<sup>162</sup> Sala-i-Martin and Subramanian, "Addressing the Natural Resource Curse."

<sup>163</sup> Looney, "Can Iraq Overcome the Oil Curse?" 34.

<sup>164</sup> Christopher Albin-Lackey, "Proposal for an Oil Revenue Management Law for Sao Tome and Principe: Explanatory Notes," (proposal, Columbia University, August 4, 2004), 12.

In this context, this chapter discusses the proposals of a direct distribution system, and the advantages and disadvantages of such a system. Ultimately, it evaluates and compares these advantages and disadvantages to reach a conclusion on the subject.

## **B. PROPOSALS FOR A DIRECT DISTRIBUTION SYSTEM**

The first proposal of a direct distribution system came from Clemons in April 2003.<sup>165</sup> “The proposal is that Iraq should save a fixed portion of its oil revenues, which would be invested in a portfolio of international equities and bonds. This portfolio would effectively become the national trust fund, and the fund’s income would be distributed to Iraqi citizens on an annual basis.”<sup>166</sup> “These payments would make a huge difference to families in a country whose per capita gross domestic product rests at about \$2,500. More importantly, Clemons felt that by spreading capital broadly among new stakeholders, the plan would also prevent a sliver of Iraq’s elite from becoming a new kleptocracy.”<sup>167</sup>

Palley also has an alternative on the issue. In his proposal, he mentions making distributions to only adult citizens. “Iraq has a population of approximately twenty-five million, of which seventeen million are adults. Again assuming a distribution of \$2.75 billion (i.e., 25% of \$11 billion), this would translate into a larger estimated payment of approximately \$160 per adult — a bonus equal to as much as 10% of the average Iraqi’s income.”<sup>168</sup> Palley felt that his plan would obtain political buy-in of citizens, and it would also not cause an increase in the rate of population growth.<sup>169</sup>

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<sup>165</sup> Steven C. Clemons, “Sharing, Alaska-Style,” *New York Times*, April 9, 2003.

<sup>166</sup> Thomas I. Palley, “Combating the Natural Resource Curse with Citizen Revenue Distribution Funds: Oil and the Case of Iraq,” *Foreign Policy in Focus (FPIF) Special Report*, (December 2003); 1.

<sup>167</sup> Looney, “Can Iraq Overcome the Oil Curse?” 33.

<sup>168</sup> Palley, “Combating,” 8.

<sup>169</sup> *Ibid.*

Frederick D. Barton, Senior Advisor of the International Security Program for the Center for Strategic and International Studies, has another proposal in a hearing before the Committee on Foreign Relations in the United States Senate. His proposal is a two-part plan. “The first part is to give Iraqis a direct stake in maximized production by instituting a wealth-sharing plan where each Iraqi family receives a certain amount of money in a personal account every year to spend on health, education, or livelihood.”<sup>170</sup> In the second part of the plan, he proposes to develop a board of overseers comprised of Iraqi officials, local and international partners, and Iraqi civilians that could be charged with directing a portion of the oil revenue to Iraqi public goods and tangible infrastructure projects.<sup>171</sup> He believes that such a plan would capitalize a fledgling banking industry, would increase incentives for Iraqis to assist their government and coalition forces in protecting the oil infrastructure, would help with the security situation, and help to create democratic governance.<sup>172</sup>

Kenneth M. Pollack and the Iraq Policy Working Group of the Saban Center for Middle East Policy at the Brookings Institution have an alternative plan. They propose a five-basket solution for the oil revenue sharing plan, which contains the direct distribution system. This plan is depicted below in Figure 6. They mention that the money should not simply be paid directly to every Iraqi household, but would be better deposited in individual bank accounts earmarked for specific purposes, education, retirement, healthcare, etc., that could either be determined on a country-wide basis by the Council of Representatives or left up to individual Iraqis themselves (preferably the latter).<sup>173</sup> They also discuss an alternative, though they admittedly do not like this alternative. “Alternatively (or perhaps additionally), revenues directly to the people could be used to eliminate

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<sup>170</sup> U.S. Senate, *Policy options for Iraq: Hearings before the Committee on Foreign Relations*, 109th Cong., 1st Sess., 2005.

<sup>171</sup> Ibid.

<sup>172</sup> Ibid.

<sup>173</sup> Kenneth M. Pollack, “A Switch in Time: A New Strategy for America in Iraq,” (analysis paper, The Saban Center for Middle East Policy at the Brookings Institution, February 2006), 73.

the food rations that Iraqis still receive from the central government. This is a horribly inefficient use of resources, and it would be much better to put the money in the hands of Iraqis and allow them to decide what they want to eat, thereby removing the corrupt and inefficient central bureaucracy from this necessity of life.”<sup>174</sup>

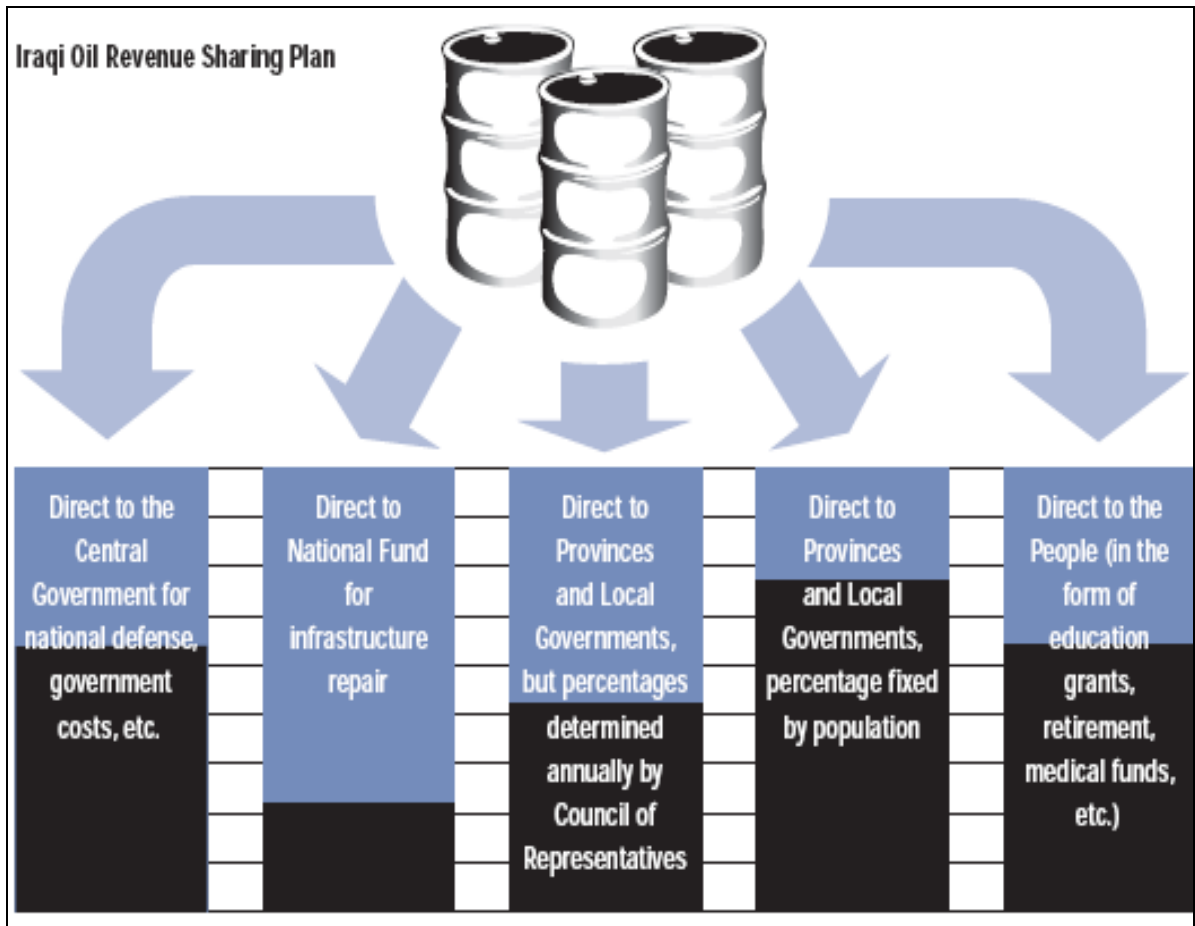


Figure 6. Iraqi Oil Revenue Sharing Plan <sup>175</sup>

<sup>174</sup> Pollack, “A Switch in Time,” 73.

<sup>175</sup> Ibid.



### **C. POSSIBLE ADVANTAGES AND DISADVANTAGES OF A DIRECT DISTRIBUTION SYSTEM**

Keeping these proposals in mind, there are good reasons both for and against a direct distribution system. The beneficial economic, social, and political effects of a direct distribution may likely occur as follows:

- The system may monetize the rural economy of Iraq and create markets for the poor, which could facilitate poverty alleviation.
- It may also encourage a local credit market since some people would save part of their distributions. This could bring interest rates down, helping local investment.<sup>176</sup>
- With the help of the system, the people of Iraq will have a choice in how to spend it, thus market forces may be able to operate more efficiently.
- Another advantage of the system is that it is likely to encourage efficiency in the oil industry. Since the size of payments to citizens will depend on the efficiency of the oil industry, this should contribute to political pressure to improve efficiency.<sup>177</sup>
- By giving the Iraqi people a direct stake in oil revenues, it may energize Iraqis to oppose both types of corruption from organized crime and from the insurgents who steal the oil and its revenues and destroy the oil infrastructure.<sup>178</sup>
- It may transfer some of the decisions about how to invest resources to the people who are most affected by those decisions, and who are best informed to make those decisions.<sup>179</sup>

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<sup>176</sup> Pollack, "A Switch in Time," 12.

<sup>177</sup> Palley, "Combating," 4.

<sup>178</sup> Ibid., 74.

<sup>179</sup> Albin-Lackey, "Proposal," 12.

- The system may also avoid the imbalance of economic and political power associated with private control of revenues. Moreover, it instantly and may substantially increase per capita income.<sup>180</sup>
- Putting the money into special bank accounts may capitalize Iraq's banking system.<sup>181</sup>
- By giving the Iraqi people a direct stake in oil revenues, the system gives citizens a more direct way to view their government's performance, and hence may force the government to become more democratic and less corrupt and accountable.
- Additionally, a direct distribution system may bring equal distributions for every man and woman, and help to heal the insurgency problem.

On the other hand, the disadvantages of direct distribution system may likely occur as follows:

- It is clear that oil dividends will reduce the amount of funding available for public infrastructure, health, and education spending. However, as a developing country, Iraq has huge needs in these areas — particularly after two decades of war and economic sanctions.<sup>182</sup> In this context, it also may cause macroeconomic instability.
- Another disadvantage of the system is that citizens may use the money unwisely, leading to inefficient allocations of expenditures to consumption and investment or to suboptimal investments.<sup>183</sup> In this context, it will likely cause high inflation.
- Iraq will need a big and reliable database cataloguing all of its citizens; however, this seems impossible in the near future. On the

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<sup>180</sup> Birdsall and Subramanian, "Saving Iraq," 5.

<sup>181</sup> Pollack, "A Switch in Time," 74.

<sup>182</sup> Ibid., 5.

<sup>183</sup> Albin-Lackey, "Proposal," 13.

other hand, without such a database, corruption and political interference will likely occur. Ultimately, the democracy culture of Iraq is not similar to countries who have used the system efficiently, namely the U.S.A. and Canada.

- Additionally, if Iraqis only get a few cents per month from direct distributions, it is likely to be seen as a joke, and probably as proof that the system is still deeply corrupt.<sup>184</sup>
- An oil dividend entitlement may also produce a national epidemic of laziness.<sup>185</sup> In other words, cash salaries may produce disincentives for workers to supply labor, leading to greater shrinking of the non-oil sector and an even greater dependence of the economy on oil rents.<sup>186</sup>
- Another disadvantage of the system is possible population growth. The possibility of this effect is contingent on specification of the eligibility requirement. In particular, if all citizens — including children — are eligible, this could provide an incentive for Iraqis to have more children, which will likely cause a need for even faster job growth in a country and region with high unemployment.<sup>187</sup>

#### **D. ASSESSMENT**

In addition to the constitution and federalism arguments, there are proposals to redistribute a portion or the entire oil revenues directly to the population on a per capita basis. These proposals mostly stem from the systems

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<sup>184</sup> Pollack, "A Switch in Time," 75.

<sup>185</sup> Ibid., 5.

<sup>186</sup> Albin-Lackey, "Proposal," 13.

<sup>187</sup> Ibid., 5.

used in the U.S. state of Alaska and the Canadian province of Alberta, and they have the potential to give all Iraqi citizens a stake in the nation's chief natural resource.<sup>188</sup>

These scholarly proposals vary in many ways. Scholars argue over the percentage of money that will be distributed. Some scholars propose to distribute all or most of the money, while others propose to give only a portion, at most 20-25%, of the oil revenues. On the other hand, scholars also argue about whom the money will be given to. Some of them argue to give the money to the all citizens, while others propose to distribute the oil revenues only to the adults. Another argument among scholars is the type of distribution system. Some scholars argue that it would be the only system to distribute the oil revenues, while others think that it would be part of a basket system.

Another key issue of the argument is the advantages and the disadvantages of the system. By giving the money directly to the people, the system may facilitate poverty alleviation, and may reduce the amount of governmental funding available for public infrastructure, health, and education spending. It may also bring a more democratic atmosphere to that country, and may help to solve many problems in Iraq, such as human and women's rights, corruption, and organized crime. Additionally, the system may help to heal the insurgency problem.

On the other hand, the system has many disadvantages. For example, it may cause macroeconomic instability, high inflation, may fail to prevent corruption and organized crime, and may also cause uncontrolled population growth. Additionally, it is clear that it would take time to develop such a distribution system. In this context, it seems that this system cannot yield a fair oil distribution unilaterally. This is due in part to the fact that there is no institution in Iraq at present with the capability of properly implementing such a distribution

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<sup>188</sup> Looney, "Can Iraq Overcome the Oil Curse?" 34.

system. “It would take substantial time to establish, and would have to be based on a well-developed state census and income tax system, which Iraq currently lacks in a direct distribution system.”<sup>189</sup>

Additionally, if this system is used unilaterally, it will likely cause old problems to remain without any solution, cause new problems, and increase the magnitude of current problems. This is because there are many sectarian, ethnic, tribal and extended family groups that lack democratic experience. In this context, these groups, gangs, criminal organizations, and corruptible bureaucrats may put pressure on the individuals, the dividends of oil revenues, and/or steal and corrupt the money of these individuals.

On the other hand, a strong central government can successfully utilize the direct distribution system. In this context, there are several critical issues to execute the system successfully. These are to establish a strong and reliable distribution institution under the strong central government, to conduct a reliable census urgently, to use only 20-25% of the oil revenues, to distribute the money to all adults — both men and women — equally, to open an account for each individual, and to put the money directly in to these accounts. Additionally, the money received by dividends should be exempt from taxation, and should be monitored by the people of Iraq and the international community.

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<sup>189</sup> Baker and Hamilton, “The Iraq Study Group Report,” 23.

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## V. CONCLUSIONS

### A. MAIN CONSIDERATIONS

Secretary of Defense Robert Gates, in his speech on March 7, 2007, mentions that the words "civil war" oversimplify a very complex situation in Iraq.<sup>190</sup> In fact, as we move into the fifth year of conflict in Iraq, it is difficult to find a great deal of cause for optimism, since every day hundreds of innocent people lose their lives due to ongoing ethnic and sectarian violence in Iraq. Moreover, the casualties of the Multi-National Forces, predominantly those of the United States, are increasing.

In this chaotic environment, many people believe that immediate and long-term growth depends predominantly on the oil sector.<sup>191</sup> However, there are many intermingled problems facing Iraq that are causing an increase in violence in that country, most of which stem from the oil and the possible oil distribution scenarios of the oil revenues.

On the other hand, the complexity of these problems increases because of the new type of multifaceted war, which is expected to last longer than the previous ones.<sup>192</sup> This modern warfare has many facets: cross-cultural relationships, psychological operations, Special Forces, air force with space capabilities, precision weapons, human intelligence, humanitarian aid, civil-military cooperation, public affairs, network centric warfare, intelligence operations, logistics support, aircraft carriers, AWACS, and many other complicated systems. Additionally, media is effecting the warfare environment.

Keeping the properties of a multifaceted warfare environment and the serious problems mentioned above in mind, it is necessary to understand the

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<sup>190</sup> Anthony H. Cordesman and Arleigh A. Burke, "Iraq, the Gulf, Afghanistan: The Way Ahead," *Center for Strategic and International Studies*, (May 1, 2007); 17.

<sup>191</sup> Baker and Hamilton, "The Iraq Study Group Report," 21.

<sup>192</sup> Hammes, *The Sling*, 167.

importance of the Middle East to make an approach for fair oil distribution in Iraq since the Middle East has enormous importance in world politics. Sixty-five percent of the world's oil is in the Middle East. This oil is the lowest cost oil in the world, and the entire world needs this oil. On the other hand, the Middle East is the place where the major religions originated. Today, many religions and many countries perpetuates their existence in the region. Additionally, it contains many sanctuaries, which may cause conflicts or important dialogs among the people and countries.

In this special region, every religion, every belief, and every country has a right for survival; however, there are many problems and threats ahead of that right that stem from the region, especially the chaotic environment in Iraq. Public opinion polls discussed in this study also confirm the situation.

In sum, it is extremely important to find a solution for the Iraq question, especially the question of the oil curse. In this context, the previous chapters of this thesis and the following paragraphs offer an approach for an ideal oil distribution scenario. Additionally, this thesis explains possible modifications of the Constitution of Iraq and new Iraqi Hydrocarbon/Oil Law. It also makes many recommendations to help form the solution.

## **B. IDEAL OIL DISTRIBUTION SCENARIO: WHAT WOULD BE THE BEST SYSTEM AND WHY**

One of the major debates over fair oil distribution in Iraq centers on the type of government by asking which form of government is better for that country: a strong central government or a federal system. However, it is considered a "single federal state" in the Iraqi Constitution.

On this issue, ideas and opinions vary among Iraqi and international groups, and among scholars as well. However, this study strongly recommends a strong central government to help cease the ongoing conflicts in that country and to distribute the oil revenues equally. Federalism, especially in combination with the chaotic environment discussed in this thesis, is a big threat to the success in



the Iraq War and the GWOT, and to promoting democracy in that country. Additionally, it is clear that there are many problems that cause federalism, leading it to be viewed as a threat. These problems, which will most likely cause an increase in the ethnic and sectarian violence and may possibly cause the collapse of the state, are:

- Ongoing ethnic and sectarian violence;
- Disinformation which affects the decision makers' ideas;
- Lack of national identity due to ethnic and sectarian groups, tribes, and extended families;
- Organization of Iraqi Security Forces (ISF), which is far from a national identity;
- Kurdish aspirations and probable results of their dreams;
- Results of the 2005 elections, which were affected by cheating;
- Oil distribution scenarios without any dependable census since 1957;
- Difficulties in designing an economic strategy for Iraq;
- Geographic locations of oil reserves relative to ethnic populations — absence of oil in the Sunni Arab dominated areas;
- Insufficiency of current pipelines and their security;
- Ownership of Kirkuk;
- The need for new oil refineries and their related security problems;
- Multi-ethnic and multi-sectarian cities and impossibility of any possible division or partition attempts for those cities;
- The importance of the holy cities for regional and global people;
- Constitutional problems, especially stemming from Articles 111, 112, 117, 119, 121, and 140;
- Need for foreign aid and the possible negative results of foreign aid.

In this context, constitutional amendments are needed to replace the single federal state, which is a kind of loose federation that resembles a type of a confederation, with a strong central government in the Iraqi Constitution.

Otherwise, federalism, in combination with the ongoing and potential problems discussed above, will likely cause an increase in the ethnic, sectarian, and ethno-sectarian conflicts in that country. This is due in part to the fact that there are many religious, ethnic, sectarian, tribal, and extended family groups lack of democracy experience who are eager to run the government or governmental institutions to gain the many advantages for their own groups in that country.

Additionally, despite the extreme conditions discussed above, the people of that country need each other; however, there is still only the collaboration of the groups, not a national identity. In this context, to bring the people together, democracy and secularism can play a role as the basis for the integration of different groups under a national identity in a strong central government type. If this foundation cannot be used properly, many different groups in that country will not likely be able to cohabitate, the people who speak different languages, have different religions and from different sects will not likely reside together.

Moreover, a strong central government is needed for the destiny of holy cities and oil-rich cities. Many cosmopolitan cities are important for various religions and sects, and many other cities are important for oil-richness and these cannot be partition among various groups.

On the other hand, a strong central government is not enough to bring about the elusive peace. In addition to a strong central government, a special type of direct distribution system, which should only be temporary to prevent the negative effects of the system, can be used to assist with the problems. In this context, there are several critical issues to execute the system successfully. These are: to establish a strong and reliable distribution institution under the strong central government; to urgently conduct a reliable census; to use only 20-25% of the oil revenues; to distribute the money to all adults (both men and women) equally; to open an account for each individual and put the money

directly in to these accounts. Additionally, the money gained by the dividends should be exempt from taxation, and should be monitored by both the people of Iraq and the international community.

### **C. POSSIBLE MODIFICATIONS OF THE CONSTITUTION AND OIL LAW**

Unless amended, the Iraqi Constitution and the New Hydrocarbon/Oil Law will most likely play a significant role in structuring both production and revenue developments in the oil sector. Specifically, the Iraqi Constitution has the potential to damage the country's oil politics and fragile efforts to stop violence. In fact, many articles of the constitution increase the tension and violence, which threatens the fair oil revenue distribution in that country. The key provisions about oil are outlined in Articles 111 and 112; however, there are many other problematic areas in some other articles. In this context, it can be said that several actions on several issues may decrease the violence in Iraq, and may cause fair oil distribution.

First, constitutional amendments, described in Article 142, to give the fair rights to the other ethnic and sectarian groups besides Shi'a Arabs and Kurds can be helpful to decrease the tension. These amendments should especially be made to Articles 111 and 112 since these articles appear to satisfy Kurdish and Shi'a Arab concerns and needs, but not those of others. "Furthermore, the constitution leaves open the possibility of abuse of economic power by the Kurds and Shi'a Arabs. Additionally, the constitutions' lack of clarity on many oil issues such as production and distribution are also conducive to an atmosphere of corruption and the creation of failed rentier state."<sup>193</sup>

Second, the key issues for compromise on the Kirkuk issue can be: finding a fair solution for the resettlement problem, conducting a census by the view of international viewers, sharing the oil revenues of Kirkuk and other parts of Iraq fairly, and delaying the Kirkuk referendum for a certain period of time. The

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<sup>193</sup> Looney, "Economic Consequences of the New Iraqi Constitution," 374.

strategic importance of an area, if not recognized, will result in tremendous instability and violence, and the impact would be felt globally. The wealth must be used for the benefit of the whole country, as well as the entire world, instead of the benefit of any one ethnic or sectarian group. In addition, the problem should be solved with a consensus to bring stability and peace to the region and to the world.

Third, as discussed above, other amendments, in Articles 2, 4, and 7, are needed to bring about secularism, a better democracy, and an Iraqi national identity for that country. Otherwise, there will be more extremism and less democracy in Iraq, and in the region as well.

Fourth, the New Hydrocarbon/Oil Law should clearly be discussed, and should offer equal rights to all Iraqi citizens instead of the to regions. This is because the oil and gas resources are the property of the Iraqi people.

#### **D. RECOMMENDATIONS**

It is extremely important to find a solution for the Iraq question, especially the question of the oil curse. This question, in combination with the problems in the Middle East, increases extremism and polarization among the religions, countries, ethnicities, and sects. They may also cause anti-Semitic approaches, as in the 1930s in Europe, among the U.S. and Israel and the Muslim world. Moreover, the extremism and polarization in combination with the ongoing situation in Iraq may lead to a larger, regional war in the Middle East. If a regional war occurs, it may have following results:

- Bilateral separation by Kurds and Shi'a Arabs in Iraq provokes Iranian action. Iran may risk a war, including a nuclear conflict, against the U.S. The root of this argument is based in the differing mentalities of Kurds and Shi'a Arabs from the Iraqis.
- The Kurds and Alawis, who are very strong in Syria and some of which have separatist ideas, likely affect Syria's stability.

- Israel likely has closer ties with Kurds, and conducts covert operations against Syria and Iran as in previous<sup>194</sup> conflicts, which may lead to a larger regional war.
- Regional countries may have the same idea about Kirkuk due to Kurds' desires, and this situation may cause crises in the international organizations, as in the 1956 Suez Crisis ordeal.
- Saudi Arabia, Jordan, and Egypt have the potential to act differently from the other Muslim and/or Arab countries, as in the Lebanon-Israel War in 2006, which may cause crises in the Arab League and the Organization of the Islamic Conference.
- The European Union consumes almost 16% of the world's oil, of which 10% originates from the Middle East, while the U.S. consumes more than 24% of the total, 12% from the Middle East.<sup>195</sup> In this context, the E.U., with the exception of France, can act to open its trade movement. French can act against the U.S., as in most of the previous crises, due to their concerns of domestic problems, namely the problems stemming from its minorities, which can also cause new NATO and E.U. crises.
- Russia, China, and France can mention the importance of the United Nations to solve the problem.
- Russia can also act on the side of the Arabs due to concerns regarding the Chechnya problem.
- China, which saw acceleration in its trade after joining the World Trade Organization, consumes almost 8.5% of the world's oil, of which 4% comes from the Middle East.<sup>196</sup> However, it will possibly consume more than 30% of world's oil in the next three decades.<sup>197</sup>

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<sup>194</sup> Fawn and Hinnebusch, *The Iraq War*, 192.

<sup>195</sup> British Petroleum Statistics, "*BP Statistical Review*."

<sup>196</sup> Ibid.

<sup>197</sup> *Oil Magazine*, "Ministry of Oil, Kuwait," August 2006  
[www.moo.gov.kw/magazine/en/index.asp?page=20&day=18](http://www.moo.gov.kw/magazine/en/index.asp?page=20&day=18) (Accessed August 7, 2007).

For this reason, it can act to find a better solution under the authority of the UN. China can also act to make its oil trade movement methods more open. Today, China's main oil trade movement begins from the Middle East and passes through Asia. If this way is closed, China will transport the oil by a longer route, which transverses around South Africa, and will increase the production costs and decrease China's economic strength. If that situation — which can cause the continuity of the U.S. hegemony — occurs, China will probably act with Russia and France, and potentially with other nuclear powers against the U.S.

- The UN probably does not send peace-making forces to the crisis area as in the Balkans Crisis in the 1990s, and solely deploys a peacekeeping force afterwards. NATO can send forces; however, it will probably not send assets due to the crisis among NATO allies. This situation can also lead to speculation about the strength and utility of the UN and NATO.

On the other hand, it is possible to solve the problems and to prevent a regional or global crisis. In this context, this study recommends eight things to do.

First, the most important thing is to thoroughly understand the problems and evaluate the situation. If the problems are understood well enough, and the situation is precisely evaluated, elusive peace can be caught and can be kept in hand.

Second, there should be compromise by meetings, as conducted in Baghdad and Sharma al-Sheikh in 2007, or direct talks among the representatives of all ethnic groups, as well as of the governments of Iraq, its neighbors, the U.S., and the other key regional and global actors. These meetings will likely help achieve a thorough understanding of the problems, and help to find better solutions for the current and potential future problems of Iraq.

Third, U.S. decision makers should seek strong international support to present a united front against the threats in Iraq, and to solve the problems in that country. In this context, internal and external dynamics of Muslim and predominantly Muslim populated countries are key elements for the solution. Improving the U.S. image would grant it further credibility and serve to improve relationships in these countries. This support should not only come from individual countries, but also from international organizations and regional key powers as well.

Fourth, a strong central government is needed to help cease the ongoing conflicts in Iraq and to distribute the oil revenues in that country equally, since federalism, especially in combination with the chaotic environment discussed in this thesis, is a big threat for the success in the Iraq War and the GWOT, and for promoting democracy in that country. Additionally, it is clear that there are many problems causing federalism, which can be viewed as a threat.

Fifth, a special type of direct distribution system, in addition to a strong central government, which should only be temporary in order to prevent the negative effects of the system, can be used to solve the problems. In this context, there are several critical issues, which are discussed in this thesis, necessary to execute the system successfully.

Sixth, constitutional amendments, described in Article 142 of the Iraqi Constitution, to give the fair rights to the all Iraqi citizens — not just for the Shi'a Arabs and the Kurds — can be helpful for the fair oil distribution in that country. As discussed in Chapters II and III, these amendments should especially be made to the Articles 2, 4, 7, 111, 112, 117, 119, 121, and 140.

Seventh, the key issues for compromise on the Kirkuk issue can be discussed in meetings and/or in direct talks among the representatives of all ethnic groups in Kirkuk, as well as of the governments of Iraq, its neighbors, the U.S., and the other regional and global key actors. These key issues include finding a fair solution for the resettlement problem, conducting a census by the

view of international viewers, sharing the oil revenues of Kirkuk and other parts of Iraq fairly, and delaying the Kirkuk referendum for a certain period of time.

Eighth, the New Hydrocarbon/Oil Law should be clearly discussed and should offer equal rights to all Iraqi citizens, instead of only the regions, since the oil and gas resources are the property of the Iraqi people.

These eight recommendations may not be sufficient to have a precise solution for fair oil distribution in Iraq. However, they are necessary for the solution. We can decrease and minimize conflict and violence by using these prescriptions and following a proper strategy. In fact, we have to do so since the people of Iraq and the people of the region, from many different ethnicities and beliefs as the people from the outside of the region, deserve to live in a peaceful environment.



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